West Sussex County Council

Audit Planning Report

Year ended 31 March 2022

July 2022

Building a better working world

7 July 2022

West Sussex County Council
County Hall
West Street
Chichester
PO19 1RQ

Dear Committee Members

Audit Planning Report

We are pleased to attach our planning report for the forthcoming meeting of the Regulation, Audit and Accounts Committee. The purpose of this report is to provide you with a basis to review our approach and scope for the 2021/22 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the auditing standards and other professional requirements. It also aims to ensure that our audit is aligned with the Committee's service expectations.

This report updates our initial assessment of the key issues which drive the development of an effective audit for West Sussex County Council which we reported to the Committee in March 2022. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Regulation, Audit and Accounts Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 17 July 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee, and management of West Sussex County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Regulation, Audit and Accounts Committee and management of West Sussex County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy

The following ‘dashboard’ summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Non-Operational land and buildings classified as Investment Property (IP) and Surplus Assets	Significant risk	No change in risk, however this has been disaggregated from the risk reported in prior years.	The valuation of land and buildings classified as IP and Surplus Assets represent material figures within the Council’s financial statements. The valuation is reliant on the work of the Council’s external professionally qualified valuer and based on information provided by the Council, which includes a number of judgements and assumptions. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Operational land and buildings classified as property, plant and equipment (PPE) - DRC	Significant risk	No change in risk, however this has been disaggregated from the risk reported in prior years	The valuation of land and buildings classified as PPE (valued at DRC) represent material figures within the Council's financial statements. The valuation is reliant on the work of the Council's external professionally qualified valuer and based on information provided by the Council, which includes a number of judgements and assumptions. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.
Operational land and buildings classified as property, plant and equipment (PPE) - EUV	Significant risk	No change in risk, however this has been disaggregated from the risk reported in prior years	The valuation of land and buildings classified as PPE (Valued at EUV) represent material figures within the Council's financial statements. The valuation is reliant on the work of the Council's external professionally qualified valuer and based on information provided by the Council, which includes a number of judgements and assumptions. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements. As part of our 2020/21 Audit Results Report we recommended that the Council should take a more granular approach to the valuation of Horsham Enterprise Park in 2021/22 that is based on a development appraisal of the actual consented scheme.
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Going Concern Disclosure	Inherent risk	No change in risk or focus	There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 during 2021/22 there is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.
Accounting for Covid-19 related government grants	Inherent risk	No change in risk of focus	The Council has continued to receive a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2021/22. Some new grants have also been received in 2021/22. We will continue to consider the approach taken by the Council and in particular whether it is acting as agent or principal in administering the grant, whether grant conditions and restrictions exist and have been met or not. and whether the accounting treatment adopted in the financial statements properly reflects this.
Accounting treatment for infrastructure assets	Inherent risk	New risk for 2021/22	The value of infrastructure non-current assets is material in the financial statements. Once an item of property, plant and equipment has been recognised and capitalized, the Council may incur further costs on that asset at a later date. The accounting treatment requires such subsequent expenditure to be capitalized to the value of the asset where these costs meet the recognition criteria. Where the subsequent expenditure represents the replacement of a component, the old component must be written out of the balance sheet. There is a need for the Council to ensure that it is has recognised and accounted for such subsequent expenditure appropriately. CIPFA is currently considering potential amendments to the Local Authority Code of Accounting Practice in this area. We will consider the outcome of that consideration as part of the audit.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Teachers' Pensions liability	Area of audit focus	New area of focus	We became aware in September 2021 that the Council reported a breach of the Teachers' Pension Regulations to the Pensions Regulator in June 2021. This relates to a failure over a number of years dating back to 2007 to auto-enrol some part time and casual teaching staff onto the pension scheme as required following a change to regulations in 2007. The underlying failure to auto-enrol was fully rectified from September 2017, so this is not a continuing issue. Work completed by a professional actuary in September 2021 fully scoped the number of records and individuals impacted historically. The Council was not, however, able at that point in time to quantify the cost of the breach until further work had been completed by the Teachers' Pensions Service and impacted individuals were contacted to confirm whether or not they intend to join the scheme. We raised a related recommendation for improvement as part of our 2020/21 Auditor's Annual Report. We will assess the progress made by the Council during the year to quantify the value of the liability and review the accuracy of the provision or contingent liability included in the 2021/22 financial statements by reference to the supporting work undertaken by the actuary, Teacher's Pensions Service and Council to contact impacted individuals. We will also ensure that both the liability and issue are adequately disclosed in the financial statements together with details of assumptions made and the level of estimation uncertainty in the quantification of any provision.

Overview of our 2021/22 audit strategy (continued)

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Regulation, Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Materiality

Planning materiality

£31.88m

Materiality has been set at £31,877k, which represents 1.8% of the prior year's gross expenditure on provision of services, levies expenditure and interest payable.

Performance materiality

£23.91m

Performance materiality has been set at £23,908k, which represents 75% of materiality.

Audit differences

£1.59m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and firefighters' pension fund financial statements) greater than £1,594k. Other misstatements identified will be communicated to the extent that they merit the attention of the Regulation, Audit and Accounts Committee.

Overview of our 2021/22 audit strategy (continued)

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with our audit opinion on the Council's financial statements for 2021/22. We are also required to report a commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on value for money below and in Section 03, highlighting the changes included in the NAO's Code of Audit Practice 2020.

We will also review and report to the NAO, to the extent and in the form required by them, on the Whole of Government Accounts submission.
Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards and will take a substantive approach
.
When planning the audit we take into account key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of West Sussex County Council's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements
Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.
We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy (continued)

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

- We will provide a commentary on the Council's arrangements against three reporting criteria:
    - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

In April 2020, the Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of 30 November. In Section 07 we include a provisional timeline for the audit.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider of the effectiveness of management's controls designed to address the risk of fraud.

Perform mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

Our response to significant risks

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

► Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
► Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.
► Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating PPE additions and/or REFCUS in the financial statements.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

What will we do?

We will:

► Test Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
► That the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred.
► Any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
► Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year.
► Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Our response to significant risks (continued)

Non-operational land and buildings classified as Investment Property (IP) and Surplus Assets

Financial statement impact

If surplus assets or investment property are incorrectly valued this could have the impact of understating or overstating the carrying value of assets and income and expenditure by a material amount. Relevant accounts had the following balances in the 2020/21 financial statements:

Surplus Assets: £49m

Investment Property: £89m

What is the risk?

There is a high degree of estimation uncertainty in the valuation of property. We note that the Council's IP and surplus property is subject to annual revaluation.

This risk specifically pertains to surplus assets and investment property. We will also consider the impact of Covid-19 on the risk as the market volatility brought about by Covid-19 throughout the 2021/22 year relates primarily to assets carried at a market value, including those that are measured at fair value (investment property and surplus assets).

We have raised separate risks for Investment Properties, PPE valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. These assumptions are linked to different risks, for example market value volatility only impacts investment properties and PPE valued at EUV. Separating these into three specific risks therefore allows a more tailored testing approach.

What will we do?

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample test key asset information used by the valuer in performing its valuation (e.g. comparative market valuation) and challenge the key assumptions used by the valuer.
- Test accounting entries have been correctly processed in the financial statements.
- Commission EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. Sampling will focus on:
  - Assets more susceptible to the market volatility brought about by C-19.
  - Asset categories where recommendations were made in the prior year.

Our response to significant risks (continued)

Operational land and buildings classified as property, plant and equipment (PPE) – Existing Use Value (EUV)

Financial statement impact

If land and buildings or investment property are incorrectly valued this could have the impact of understating or overstating the carrying value of assets and income and expenditure by a material amount. Relevant accounts had the following balances in the 2020/21 financial statements:

Other Land and Building: £1,011m

Valued at EUV: £147m

What is the risk?

There is a high degree of estimation uncertainty in the valuation of property, especially when the amount of PPE, as in the case of the Council, is many times our materiality for the audit. We note that not all of the Council's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the CIPFA Code of Practice on Local Authority Accounting i.e. they are not subject to revaluation.

This risk specifically pertains to surplus assets carried at EUV. We will also consider the impact of Covid-19 on the risk as the market volatility brought about by Covid-19 throughout the 2021/22 year relates primarily to assets carried at a market value.

As part of our 2020/21 Audit Results Report we recommended that the Council should take a more granular approach to the valuation of Horsham Enterprise Park in 2021/22 that is based on a development appraisal of the actual consented scheme.

We have raised separate risks for Investment Properties, PPE valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. These assumptions are linked to different risks, for example market value volatility only impacts investment properties and PPE valued at EUV. Separating these into three specific risks therefore allows a more tailored testing approach.

What will we do?

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample test key asset information used by the valuer in performing its valuation (e.g. comparative market valuation) and challenge the key assumptions used by the valuer.
- Test accounting entries have been correctly processed in the financial statements.
- Commission EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. Sampling will focus on:
    - Assets more susceptible to the market volatility brought about by C-19.
    - Asset categories where recommendations were made in the prior year.
- Review assets not subject to revaluation by the valuer in the period to gain comfort carrying values have been updated, where there is a material need to do so, based on the valuation movements for similar assets actually subject to revaluation during the year.
- Follow-up on the level of progress made in addressing the recommendation raised in the prior year.

Our response to significant risks (continued)

Operational land and buildings classified as property, plant and equipment (PPE) – Depreciated Replacement Cost (DRC)

Financial statement impact

If land and buildings or investment property are incorrectly valued this could have the impact of understating or overstating the carrying value of assets and income and expenditure by a material amount. Relevant accounts had the following balances in the 2020/21 financial statements:

Other Land and Building: £1,011m

Valued at DRC: £864m

What is the risk?

There is a high degree of estimation uncertainty in the valuation of property, especially when the amount of PPE, as in the case of the Council, is many times our materiality for the audit. We note that not all of the Council's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the Local Authority Code of Practice on Local Authority Accounting i.e. they are not subject to revaluation.

This risk specifically pertains to surplus assets carried at DRC. The Council applies a 'Modern Equivalent Asset' approach, where for DRC valuations (such as for schools), the valuation is based on the cost to construct an asset with equivalent service potential rather than a like-for-like replacement of the existing structure. This is a subjective approach where we need to challenge that the assumptions made by the valuer in determining the DRC are both reasonable and supportable.

We have raised separate risks for Investment Properties, PPE valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. These assumptions are linked to different risks, for example market value volatility only impacts investment properties and PPE valued at EUV. Separating these into three specific risks therefore allows a more tailored testing approach.

What will we do?

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample test key asset information used by the valuer in performing its valuation (e.g. replacement build cost per square meter) and challenge the key assumptions used by the valuer.
- Test accounting entries have been correctly processed in the financial statements.
- Commission EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. Sampling will focus on:
    - Assets more susceptible to the market volatility brought about by C-19.
    - Asset categories where recommendations were made in the prior year.
- Review assets not subject to revaluation by the valuer in the period to gain comfort carrying values have been updated, where there is a material need to do so, based on the valuation movements for similar assets actually subject to revaluation during the year.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<u>Pension Liability Valuation (inherent risk)</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £666 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Liaise with the auditors of West Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council. • Assess the work of the pension fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.
<u>Going Concern (area of focus)</u> There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive. Under the auditing standard in relation to going concern (ISA570), which was revised with effect from the 2020/21 accounts audit, the Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. Under the revised standard we are required to conclude on whether a material uncertainty related to going concern exists and assess the appropriateness of the Council's use of the going concern basis of accounting in the preparation of the financial statements.	We will: • Challenge management's identification of events or conditions impacting going concern. • Test management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Review the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow. • Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. • Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<u>Accounting for infrastructure assets</u> The gross cost of infrastructure non-current assets is material in the financial statements. Once an item of property, plant and equipment has been recognised and capitalized, the Council may incur further costs on that asset at a later date. The accounting treatment requires such subsequent expenditure to be capitalized to the value of the asset where these costs meet the recognition criteria. Where the subsequent expenditure represents the replacement of a component, the Local Authority Accounting Code of Practice requires the old component to be written out of the balance sheet. There is a need for the Council to ensure that it is has recognised and accounted for such subsequent expenditure appropriately. CIPFA is currently consulting on potential changes to this area of the Code. Our audit procedures, and the associated level of risk, may have to be varied if the consultation results in changes.	We will: • Gain assurance that infrastructure assets accounted for continue to exist. • Discuss the procedures applied by the Council to ensure the subsequent capital spend is recognised in accordance with the Code, i.e., where the subsequent expenditure concerns the replacement of a part/component, what procedures are performed to identify and derecognise the carrying amount of the old part/component (and any associated accumulated depreciation). • Obtain evidence to match the subsequent expenditure to the carrying amount of the replaced part or component that is being derecognised. • If the carrying amount of the replaced part or component cannot be identified, test the Council's use of the cost of the replacement as a proxy for the deemed carrying amount of the replaced part, ensuring the calculation appropriately adjusts the cost for depreciation and impairment. • Test accounting entries have been correctly processed in the financial statements.
<u>Accounting for Covid-19 related grant funding (inherent risk)</u> The Council has continued to receive a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2021/22. The Council also expected to receive £15.6million under the Covid-19 Expenditure Pressures Grant, which is new for 2021/22. We will continue to consider the approach taken by the Council and in particular whether it is acting as agent or principal in administering the grant, whether grant conditions and restrictions exist and have been met or not. and whether the accounting treatment adopted in the financial statements properly reflects this.	We will consider the Council's judgement on material grants received in relation to whether it is acting as: • Agent, where it has determined that it is acting as an intermediary; or • Principal, where the Council has determined that it is acting on its own behalf. We will ask the finance team to provide its assessment of grant accounting before it prepares the statements so that we can provide an early view on its proposed accounting treatment. We will also seek to ensure that grants, for example the local government income compensation scheme for lost sales, fees and charges, have been claimed and recognised in accordance with scheme rules

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<u>Teacher's Pension:</u> We became aware in September 2021 that the Council reported a breach of the Teachers' Pension Regulations to the Pensions Regulator in June 2021. This relates to a failure over a number of years dating back to 2007 to auto-enrol some part time and casual teaching staff onto the pension scheme as required following a change to regulations in 2007. The underlying failure to auto-enrol was fully rectified from September 2017, so this is not a continuing issue. Work completed by a professional actuary in September 2021 fully scoped the number of records and individuals impacted historically. The Council was not, however, able at that point in time to quantify the cost of the breach until further work had been completed by the Teachers' Pensions Service and impacted individuals were contacted to confirm whether or not they intend to join the scheme. We raised a related recommendation for improvement as part of our 2020/21 Auditor's Annual Report.	We will: • Assess the progress made by the Council during the year to quantify the value of the liability and review the accuracy of the provision or contingent liability included in the 2021/22 financial statements by reference to the supporting work undertaken by the actuary, Teacher's Pensions Service and Council to contact impacted individuals. • Ensure that the matter is properly accounted for and disclosed in the financial statements. This will require us to consider whether there is sufficient certainty for the obligation now to be disclosed as a liability or provision, rather than contingent liability. We will also ensure that details of assumptions made and the level of estimation uncertainty in the quantification of any liability or provision are adequately disclosed.

03 Value for Money Risks

Value for money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

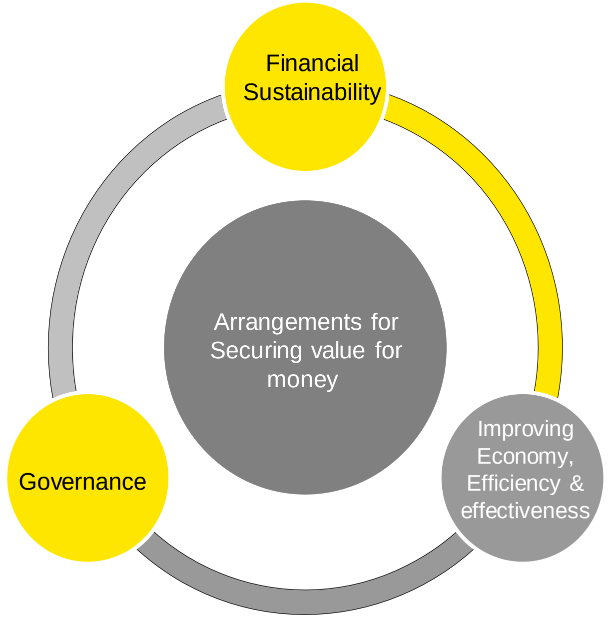
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead, the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money (continued)

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as OfSTED) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money (continued)

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Regulation, Audit and Accounts Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

We are currently undertaking our VFM Planning work and will provide a verbal update at the Regulations, Audit and Accounts Committee.

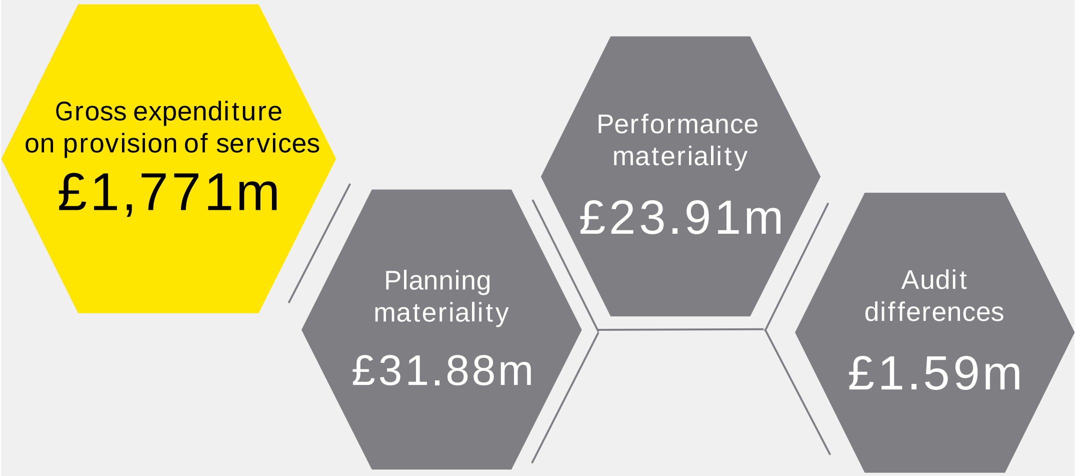
04 Audit materiality

Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £31.88m. This represents 1.8% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process.



We request that the Regulation, Audit and Accounts Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £23.91m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Regulation, Audit and Accounts Committee, or are important from a qualitative perspective.

Specific materiality - We have, also set specific materiality of £5,000 for officer remuneration, related party transaction, members' allowances and exit packages disclosures appearing in the financial statements. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas. This specific materiality is based on the value of pay bandings disclosed in the officer's remuneration note.

Materiality

The amount we consider material at the end of the audit will be based on the draft financial statements, and therefore will differ from our initial determination which is based on the audited 2020/21 accounts. We also reassess the materiality we apply based on the final financial statements and any misstatements identified as a result of our work. We will provide an update to the Regulation, Audit & Accounts Committee on the materiality levels applied as part of our Audit Results Report. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

05 Scope of our audit

Scope of our audit

Objective and scope of our audit

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Regulation, Audit and Accounts Committee.

Internal audit:
We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit procedures where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:

Helen Thompson
Lead Audit Partner

Simon Mathers
Senior Manager

Shannon Phillips
Assistant Manager

Yi Ong
Senior

EY Real Estates

Specialist PWC (consulting actuary) and EY Actuaries

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Management's Specialist: Bruton Knowles, externally appointed Council valuer. Auditor's Specialist: EY Real Estates Team to consider the work of the Council's valuer
Pensions disclosure	Management's Specialist: Hymans Robertson, West Sussex Pension Fund actuary. Auditor's Specialist: PWC (Consulting actuary) and EY Actuaries to consider the work of the Pension Fund actuary

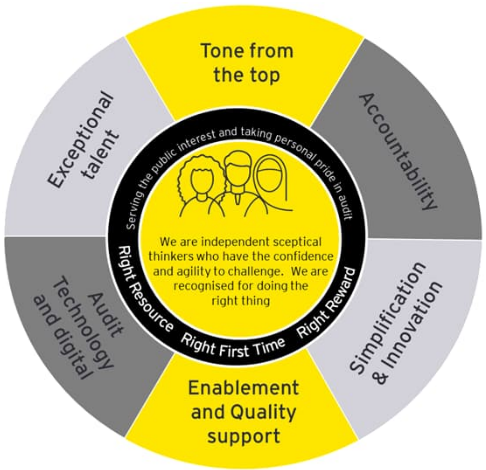
In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a common purpose. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - Right resources – We team with competent people, investing in audit technology, methodology and support
   - Right first time – Our teams execute and review their work, consulting where required to meet the required standard
   - Right reward – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of Sustainable Audit Quality are implemented.

01 **Tone at the top**

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 **Exceptional talent**

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 **Accountability**

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 **Audit technology and digital**

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 **Simplification and innovation**

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 **Enablement and quality support**

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are encouraged and empowered to challenge and exercise professional scepticism across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

<u>2021 Audit Culture Survey result</u>
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:
- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:
- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures.....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Regulation, Audit and Accounts Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Initial Planning: Risk assessment and setting of scopes. Walkthroughs of key systems and processes	March 2022	Regulation, Audit and Accounts Committee	Outline Audit Plan
	April		
	May		
	June		
	July	Regulation, Audit and Accounts Committee	Audit Planning Report
Year end audit Audit Completion procedures	August		
	September	Regulation, Audit and Accounts Committee	Audit Results Report
	November		Annual Auditor’s Report including commentary on VFM

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2021/22 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee – Code work	£90,561	£90,561
Additional work required for PPE valuation (See Note 1)	TBC	£15,511
Additional specific work in relation to Pension Fund IAS 19. We will engage with our internal pensions specialists to undertake an auditor's estimate of the gross liability (See Note 1)	TBC	£1,756
PSAA additional fee for VFM and ISA540 (See Note 1)	TBC	£17,413
Risk based fee variations agreed by PSAA (See Note 1)	TBC	£23,240
PSAA additional fee for objection to the 2020/21 financial statements (See Note 1)	-	£10,745
Total Fees	TBC	£159,226

All fees exclude VAT

Note 1 – PSAA have now determined the additional fees requested for the 2020/21 audit as shown in the table above. The total amount determined represents 65% of the amount requested of £104,877, of which we considered £66,426 to be recurrent. We will confirm our proposed additional fees for 2021/22 upon completion of our detailed work.

Appendix B

Required communications with the Regulation, Audit and Accounts Committee

We have detailed the communications that we must provide to the Regulation, Audit and Accounts Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Regulation, Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – July 2022/ Outline Plan March 2022 meetings of the Regulation, Audit and Accounts Committee.
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.

Required communications with the Regulation, Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.
Fraud	• Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee

Required communications with the Regulation, Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report – July 2022 and Audit Results Report – September 2022 meeting of the Regulation, Audit and Accounts Committee.
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of Regulation, Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Regulation, Audit and Accounts Committee may be aware of	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.

Required communications with the Regulation, Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Outline Audit Planning report– March 2022 meeting of the Regulation, Audit and Accounts Committee. Audit planning report - July 2022 meeting of the Regulation, Audit and Accounts Committee. Audit results report – September 2022 meeting of the Regulation, Audit and Accounts Committee.

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Council's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	• Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. • Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period
Other procedures	• We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.