Brentwood Borough Council

Audit planning report

Year ending 31 March 2021

November 2021

EY

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25 November 2021

Dear Audit and Scrutiny Committee Members

Brentwood Borough Council, 2020/21 Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Audit and Scrutiny Committee. The purpose of this report is to provide the with a basis to review our proposed audit approach and scope for the 2020/21 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 summarises our initial assessment of the key issues which drive the development of an effective audit for the Brentwood Borough Council. We have aligned our audit approach and scope with these. We have yet to complete our detailed audit planning and will report any changes to risks and areas of focus to the next Committee meeting.

This report is intended solely for the information and use of the Audit and Scrutiny 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 7 December 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young

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 Audit and Scrutiny Committee and management of the Brentwood Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Scrutiny Committee, and management of Brentwood Borough 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 Audit and Scrutiny Committee, and management of Brentwood Borough 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 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Scrutiny 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**
Misstatements 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. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Misstatements due to fraud or error – capitalisation of revenue spend	Fraud risk	No change in risk or focus	In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.
Misstatements due to fraud or error - Minimum revenue provision	Fraud risk	New area of focus	Linked to the risk of 'misstatements due to fraud and error', we consider specific areas where management makes significant judgements that impact charges to the General Fund balance. Local authorities are required to charge Minimum Revenue Provision to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, but need to ensure the calculation is 'prudent'. With significant increase in financing, there is a risk that provision is not prudent.
Risk of fraud in revenue and expenditure recognition – rental income from commercial properties	Fraud risk	New area of 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 evaluated which types of revenue and transactions may give rise to this risk and concluded that this is the rental income from commercial properties. In making this assessment, we have considered management's incentive to increase revenue due to budgetary pressures and the increased reliance on commercial property rental income as a source of financing for the council's operations.

Overview of our 2020/21 audit strategy

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of property, including investment properties	Significant risk	No change in risk or focus	Valuation of land and property assets is a significant accounting estimate that, in the context of an uncertain economic environment, has a material impact on the financial statements. The council commissions external property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements and therefore the balances are susceptible to misstatement.
Pension Net 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 the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions, in the current uncertain economic environment, we consider this to be a higher inherent risk.
Going concern disclosure	Inherent risk	No change in risk or focus	In 2019/20 we included a material uncertainty paragraph in our audit report highlighting the disclosure made by the Council in its financial statements on the basis of preparation of the accounts and the impact of C-19 on Council finance and its ability to continue as a going concern. This was not a modification to the audit report but reflected that a material uncertainty existed that may cast significant doubt on the Council's ability to continue providing the current level of services without an increase in planned income. The financial landscape for the Council remains highly challenging and it will again need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Scrutiny 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
Group accounts	Inherent risk	No change in risk or focus	Seven Arches Investment Limited (SAIL), wholly owned investment company, has a significant investment properties base. Material judgemental inputs and estimation techniques are required to calculate the year-end Group investment properties balances held in the balance sheet. As the Group Investment properties base is significant, and the outputs from the valuer are subject to estimation, group property valuation also links back to Valuation of property, including investment properties significant risk noted on page 5.
Accounting for Covid-19 related government grants	Inherent risk	New area of focus	The Council has received a significant level of government funding in relation to Covid-19. There is a need for the Council to ensure that it accounts for these grants appropriately, taking into account any associated restrictions and conditions.
Accounting for property acquisitions and leisure centres	Inherent risk	New area of focus	We have identified following material transactions: • Brentwood Leisure Trust, which operated the Council's leisure centre, went into liquidation. This resulted in the Council bringing the operation of the centre back in house during November 2020. • The Council purchased £89.1m properties which are classified as surplus assets. This is an area of potential complexity and judgment is involved. Therefore we have flagged this as inherent risk to ensure accounting treatment is appropriate.
Valuation of Non Domestic Rates Appeals Appeals Provision	Inherent risk	New area of focus	As at 31 March 2021, the Council's Non Domestic Rates Appeals Provision is valued at £1.2m. This is a high value estimate driven by external calculations and judgement.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Scrutiny 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

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required.

Overview of our 2020/21 audit strategy

Materiality

Planning materiality

£0.517m - £1.034m

Due to material uncertainty reported in 2019-20 audit report and growth in borrowing/commercial acquisitions, we are required to consult with our professional practice team if we are proposing PM above 1%. The range provided represents 1%-2% of the gross revenue expenditure of the Council. We will communicate final materiality in our further updates to the Audit and Scrutiny Committee.

Performance materiality

£0.388m - £0.775m

This represents 75% of materiality reflecting the lower level of errors we detected in the 2019/20 financial statements.

Audit differences

£26k - £51k

We will report all uncorrected misstatements relating to the financial statements over this range. We will communicate other misstatements identified to the extent that they merit the attention of the Audit and Scrutiny Committee.

Overview of our 2020/21 audit strategy

Audit scope

This Outline Audit Plan covers the work that we plan to perform to provide you with our audit opinion on the Council and Group financial statements for 2020/21. 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 VFM 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. We intend to take a substantive audit 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 Outline Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response. The fees we have included in Section 09 reflect the work we need to undertake to address the risks we have currently identified. We will continuously review and update as necessary our understanding of your risks and discuss with management and the Audit and Scrutiny Committee any significant changes.

Value for money conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- 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.
- Planning on VFM and the associated risk assessment is now 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 be required to 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.
- Within the audit opinion we will still only report by exception where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue at a date to be determined by the NAO.

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.

	What is the risk?	What will we do?
Misstatements due to fraud or error *	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.	▸ Identifying fraud risks during the planning stages, and keep that assessment under review throughout the duration of our audit; ▸ Inquiry of management about risks of fraud and the controls put in place to address those risks; ▸ Understanding the oversight given by those charged with governance of management's processes over fraud; ▸ Consideration of the effectiveness of management's controls designed to address the risk of fraud; ▸ Determining an appropriate strategy to address those identified risks of fraud; and ▸ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries, assessing accounting estimates for evidence of management bias, Evaluating the business rationale for significant unusual transactions and other adjustments in the preparation of the financial statements.

Our response to significant risks (continued)

Misstatements due to fraud or error – capitalisation of revenue expenditure*

Financial statement impact

Misstatements that occur in relation to capitalisation of revenue expenditure could affect the comprehensive income and expenditure account and the balance sheet by decreasing revenue expenditure and increasing capital expenditure.

What is the risk?

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. In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What will we do?

In terms of the overall response, we will:

- Identify fraud risks during the planning stages.
- 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 the effectiveness of management's controls designed to address the risk of fraud.

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the incorrect capitalisation of revenue expenditure:

- Test a sample of capital expenditure at a lower testing threshold, including Revenue Expenditure Funded from Capital Under Statute (REFCUS), where material, to verify that revenue costs have not been inappropriately capitalised;
- As part of our journal testing strategy, we will review unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure

Our response to significant risks (continued)

Minimum Revenue Provision*

Financial statement impact

If Minimum Revenue Provision (MRP) were understated it would have the impact of overstating the General Fund balance and understating the capital adjustment account

What is the risk?

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.

We identify and respond to this risk on every audit engagement. This risk manifests itself in areas where management makes significant judgements that impact charges to the general fund balance.

Local authorities are required to charge MRP to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance.

With significant increase in financing, there is a risk that provision is not prudent. As such we associate this risk with Minimum Revenue Provision.

What will we do?

We will:

- ensure that the calculation of the Capital Financing Requirement is appropriate and consistent with other notes in the financial statements; and
- check that MRP has been appropriately calculated using the methods outlined in the revised statutory guidance.

We may consider using our technical specialist to support us with the review.

Our response to significant risks (continued)

Risk of fraud in revenue and expenditure recognition – rental income from commercial properties*

Financial statement impact

Misstatements that occur in relation to rental income from commercial properties could affect financing and investment income as reported in comprehensive income and expenditure account.

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 evaluated which types of revenue and transactions may give rise to this risk and concluded that this as the rental income from commercial properties. In making this assessment, we have considered management's incentive to increase revenue due to budgetary pressures and the increased reliance on commercial property rental income as a source of financing for the council's operations.

What will we do?

In terms of the overall response, we will:

- evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- adjust the nature, timing and extent of our audit procedures by, for example, increasing our sample sizes

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to rental income from commercial properties:

- Understand the Council's revenue recognition policy
- Understand the key controls
- Obtain key commercial rental income contracts and understand the key obligations contained in these
- Perform substantive analytical procedures, with a lower testing threshold
- Consider using data analytics to identify, for example, key correlations
- Consider any further detailed transaction testing requirements based on the results of the above procedures.

Our response to significant risks (continued)

Significant risk – valuation of property, including investment properties

Financial statement impact

Misstatements that occur in relation to the valuation of property and investment properties could affect the balance sheet by materially misstating the valuation of these assets; and the income and expenditure account via the impact on depreciation charges.

What is the risk?

The fair value of property and investment properties represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

In terms of the overall response, we will:

- evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- adjust the nature, timing and extent of our audit procedures by, for example, increasing our sample sizes

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of property, including investment properties.

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation;
- Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Consider any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Test accounting entries have been correctly processed in the financial statements; and
- Engage EY valuation specialists to assist the audit team.

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 and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Net Liability Valuation 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 Hertfordshire County 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, the net liability arising totalled £43.2 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) 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 Essex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Brentwood Borough Council; ▸ Assess the work of the Pension Fund actuary (Barnett Waddingham) 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 ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and ▸ As discussed on page 8, the new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. We will engage EY Pensions Specialists to re-calculate the liability using their own model and inputs from the IAS 19 report and Triennial report.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Going concern disclosure There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry our a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure it's going concern assessment is thorough and appropriately comprehensive. The Council is then 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. In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit. In 2019/20 we included a material uncertainty paragraph in our audit report highlighting the disclosure made by the Council in its financial statements on the basis of preparation of the accounts and the impact of C-19 on Council finance and its ability to continue as a going concern. This was not a modification to the audit report but reflected that a material uncertainty existed that may cast significant doubt on the Council's ability to continue providing the current level of services without an increase in planned income. The financial landscape for the Council remains highly challenging and it will again need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation.	We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by: • Challenging management's identification of events or conditions impacting going concern. • Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. • Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. • Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties. • Ensuring assessment is covered for the councils subsidiary - Seven Arches Investment Limited (SAIL) .

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Group accounts Seven Arches Investment Limited (SAIL), wholly owned investment company, has a significant investment properties base. Material judgemental inputs and estimation techniques are required to calculate the year-end Group investment properties balances held in the balance sheet. As the Group Investment properties base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	In order to address this risk we will carry out a range of procedures including: ‣ Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ‣ Engaging EY Real Estates to review the valuations of these specific assets; ‣ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ‣ Considering if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ‣ Testing accounting entries have been correctly processed in the financial statements; and ‣ Request the component auditor, M J Bushell Ltd, to perform certain procedures on the subsidiary, SAIL.
Accounting for Covid-19 related grant funding The Council has received 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 the 2020/21 statements.	We will consider the Council's judgement on material grants received in relation to whether it is acting as: • An Agent, where it has determined that it is acting as an intermediary; or • A Principal, where the Council has determined that it is acting on its own behalf. We will encourage the finance team to provide its assessment of grant accounting well before it prepares the statements so that we can provide an early view on its proposed accounting treatment.
Accounting for property acquisitions and leisure centres We have identified following material transactions which involves judgement and accounting treatment could be challenging. • Brentwood Leisure Trust, which operated the Council's leisure centre, went into liquidation. This resulted in the Council bringing the operation of the centre back in house during November 2020. • The Council purchased £89.1m properties which are classified as surplus assets.	We will consider the Council's judgement on transactions and ensure it complies with the accounting standards. For the properties purchased during the year, this also links back to our significant risk on the valuation and VFM risks related to decision making process.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Valuation of Non Domestic Rates Appeals Provision As at 31 March 2021, the Council's Non Domestic Rates Appeals Provision is valued at £1.2m. This is a high value estimate driven by external calculations and judgement.	We will: • Agree data used to calculate the provision to reports received from the Valuations Office Agency; • Confirm appeals percentage provided for is reasonable, considering the government's baseline data for predicting business rates appeals; • Repeat perform calculations to confirm arithmetical correctness; and • Compare the level of appeals at 31 March 2021 and 31 March 2020 to assess the reasonableness of amounts provided for at year end.

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

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.

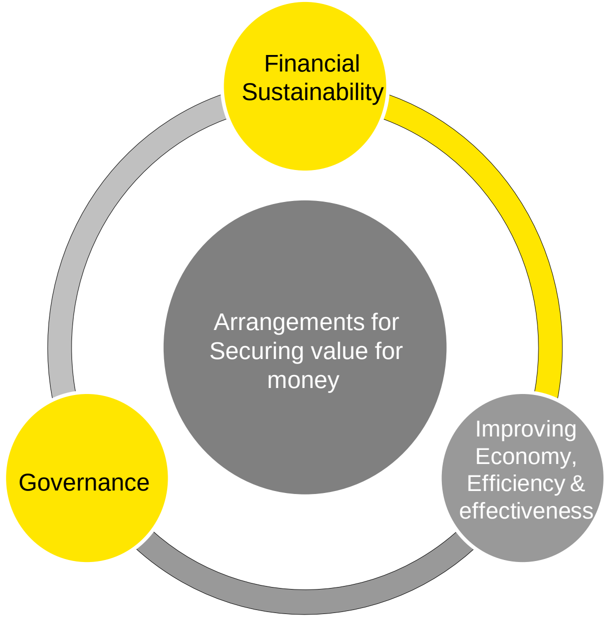
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its 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

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

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 audit 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 2020/21 VFM planning

We have yet to commence our detailed VFM planning. Our initial risk assessment has resulted in the identification of the significant risk of weaknesses noted on the following page which we view as relevant to our responsibilities.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Financial resilience – In 2019/20 we included a material uncertainty paragraph in our audit report highlighting the disclosure made by the Council in its financial statements on the basis of preparation of the accounts and the impact of C-19 on Council finance and its ability to continue as a going concern. This was not a modification to the audit report but reflected that a material uncertainty existed that may cast significant doubt on the Council's ability to continue providing the current level of services without an increase in planned income. The financial landscape for the Council remains highly challenging and it will again need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements. As at 31 March 2021, the councils short and long term position increased significantly compared to prior year. The council also granted £60m loan to its subsidiary (SAIL), made decisions to bring leisure centre in house and invested in property worth £89m.	• Financial Sustainability • Governance • Improving Economy, Efficiency & effectiveness	Our approach will focus on • The adequacy of the Council's budget setting process including the robustness of any assumptions, income generation and cost pressures, used in medium term planning; • The effective use of scenario planning to assist the budget setting process; • The effectiveness of in year monitoring against the budget; • The Council's success in prioritising resources whilst maintaining services; • The savings plans and concepts in place, assessing the likelihood of whether these can provide the Council with the required savings/efficiencies over the medium term; • The robustness of the assumptions the Council has made on any risks it is exposed to significant level of increase in borrowings; • The assessment of Councils ability to refinance the debt, the cost of replacement borrowing and the Council's ability to borrow further should there be a need to do so; • Appropriateness of the Council's capital financing strategy and commercial investments, including for example its minimum revenue provision policy for the repayment of debt.

Borrowing	31 Mar 2021 £'000	31 Mar 2020 £'000	Movement £'000
Short-term borrowings	129,950	35,122	94,828
Long-term borrowings	103,333	61,347	41,986

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Exposure to commercial investments – The council is investing significantly in commercial activities through its wholly owned subsidiary – SAIL. As at 31 March 2021, the council provided £60m of loans to SAIL and received rent of £168k through properties owned by the subsidiary. The council also formed partnership, called Brentwood Development Partnership. This is joint venture arrangement councils wholly owned subsidiary (SAIL) and Morgan Sindall. The exposure to SAIL and other commercial investment has a significant impact on the council's future, as this is a key part of the council delivering balanced budgets going forward. There is a risk of significant weakness in the way the Council exercises appropriate governance and financial probity to understand and mitigate against the risks it could be exposed to from its increased commercial investments.	• Financial Sustainability • Improving Economy, Efficiency & effectiveness	We will engage EY Corporate finance to perform an assessment of assessment of sustainability and commercial viability of Council-owned subsidiaries and corporate vehicles. Our procedures will include: ▶ An assessment of key financial challenges and issues relevant to the subsidiaries; ▶ A review of current subsidiary governance approaches; ▶ An assessment of the impact of socio-economic forecasts on subsidiary performance; and ▶ Testing sensitivities driving income and expenditure

04 Audit materiality

Materiality

Materiality

Due to material uncertainty reported in 2019-20 audit report and growth in borrowing/commercial acquisitions, we are required to consult with our professional practice team if we are proposing PM above 1%. The range provided represents 1%-2% of the gross revenue expenditure of the Council. We will communicate final materiality in our further updates to the Audit and Scrutiny Committee.

We will reassess materiality throughout the audit process. We consider that gross expenditure on the provision of services is the area of biggest interest to the users of the Council's accounts.

Gross expenditure on provision of services
£51.733m

Performance materiality
£0.388m - £0.775m

Planning materiality
£0.517m - £1.034m

Audit differences
£26k - £51k

We request that the Audit and Scrutiny 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 £0.776m for the financial statements which represents 75% of planning materiality. This reflects the low level of error detected in our 2019/20 financial statements audit.

Audit difference threshold – we propose that misstatements identified below this threshold of £52,000 are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund 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 Audit and Scrutiny Committee, or are important from a qualitative perspective.

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 review and report on the Council's financial statements and, by exception, where we are not satisfied that the Council had established 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 objective is to form an opinion on the financial statements under International Standards on Auditing (UK). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and Reviewing and reporting on the Whole of Government Accounts return, 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.

Scope of our audit

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 2020/21 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 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 Audit Committee.

Internal audit

We will review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

2	A	Full scope audits
0	B	Specific scope audits

Scope definitions

A Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations. The audit of Brentwood Borough Council Accounts and Seven Arches Investments Ltd is full scope (SAIL). Brentwood Borough Council is audited by EY LLP. SAIL is audited by M J Bushell Ltd.

B Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Scoping the group audit (continued)

Key changes in scope from last year

- No changes in scope from prior year
- We have not identified, nor have we been made aware of any changes in the functions of the group or subsidiary; the levels of income and expenditure; or of the accounts production processes for 2020/21 and we will keep this under review

Details of other procedures

- Review of group wide entity level controls over these components
- Test consolidation journals and intercompany eliminations
- Enquiry of management about unusual transactions in these components.
- Verification of Existence & ownership of Investments/Assets
- Valuation Investments/Assets

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams.

SAIL has a significant investment properties base and valuation of these investment properties has been raised as a significant risk, see section 2 above for the work Procedures. We will engage EYRE to review the valuation of assets owned by SAIL.

We will also perform the following procedures on the subsidiary:

- Review group wide entity level controls over the components, including the level of group management oversight and results of Internal Audit reviews;
- Test consolidation journals and intercompany eliminations;
- Perform analytical procedures and enquire of management about significant variances and unusual transactions in the components;
- Review the procedures performed by the finance team to ensure the subsidiary is consolidated appropriately;
- Test the material balances consolidated within Brentwood Borough Council financial statements;
- Review the associated disclosures to ensure these are in line with CIPFA Code of practice and associated guidance; and
- Request the component auditor, M J Bushell Ltd, to perform certain procedures on the subsidiary, SAIL for 2020/21, review the response to our instructions and if appropriate review the component auditors working papers.

06 Audit team

Audit team

Audit team structure:

Neil Harris
Associate Partner

Nazeer Mohammed
Manager

Hannah Colwell
Senior

EY Pensions
(Pensions Specialist)

EY Real Estate (Valuations Specialists)

EY Corporate Finance (to support VFM work)

Use of specialists

- Our approach to the involvement of specialists, and the use of their work.

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	Wilks Head & Eve (Brentwood Borough Council's property valuer and EY Real Estates Team
Pensions disclosure	Barnett Waddingham (Essex Pension Fund Actuary), EY Pensions Advisory and PwC (Consulting Actuary to the National Audit Office)
VFM risk	EY Corporate Finance

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.

07 Audit timeline

Indicative Audit timeline

Indicative timetable of communication and planned deliverables

Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the planned deliverables we have agreed to provide to you through the audit cycle in 2020/21. Please note that we will communicate any changes to this plan to officers and members as soon as we can. From time to time matters may arise that require immediate communication with the Audit and Scrutiny Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit and Scrutiny Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes	November 2021	December 2021	Audit plan
Year end audit Audit Completion procedures	November 2021 – January 2022	TBC	
	January 2022	TBC	Audit Results Report
	February 2022	TBC	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 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/additional 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 the safeguards that have been adopted appropriately mitigate the principal threats identified and we confirm that EY is independent and that Neil Harris, your audit engagement partner, and the audit engagement team have not compromised their objectivity and independence

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.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval.

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 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 threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other 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: EY UK 2021 Transparency Report | EY UK

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant 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 2020/21 (£)	Final fee 2019/20 (£)
Scale Fee – Code work [note 1]	52,365	52,365
Additional fees:		
Property valuations significant risk including review of SAIL assets	7,500-9,000	7,585
RICS related material uncertainty	TBC	1,500
Group consolidation	2,000-3,000	1,932
VFM risk	3,000	3,000
Going concern assessment and disclosure	3,000	3,000
Additional fee to address Covid-19 related risks	-	1,500
New VFM requirements	6,000- 11,000	-
Review of VFM risk by EY corporate finance	16,000-18,000	-
Additional work on pensions liability	2,500	2,100
Total audit	TBC	**72,982**
Total other non-audit services	0	0
Total fees	TBC	**72,982**

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Council;
- The Council has an effective control environment;
- EY internal consultation on the audit report in line with 2019/20.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

All fees exclude VAT

Notes:

1. We are currently in discussion with PSAA nationally about an increase to the scale fee. For Brentwood Borough Council we proposed revised scale fee of £ 80,952. This is yet to be determined by PSAA.
2. Ranges for 2020/21 additional fees based on prior year experience where appropriate.

Appendix B

Required communications with the Audit and Scrutiny Committee

We have detailed the communications that we must provide to the Audit and Scrutiny Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Scrutiny 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. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Outline Audit Plan, December 2021 meeting of the Audit and Scrutiny 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, January 2022 (TBC) meeting of the Audit and Scrutiny Committee.

Required communications with the Audit and Scrutiny Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
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, January 2022 (TBC) meeting of the Audit and Scrutiny Committee.
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, January 2022 (TBC) meeting of the Audit and Scrutiny Committee.
Fraud	▶ Enquiries of the Audit 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, January 2022 (TBC) meeting of the Audit and Scrutiny 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, January 2022 (TBC) meeting of the Audit and Scrutiny Committee.

Appendix B

Required communications with the Audit and Scrutiny Committee (continued)

Required communications	What is reported?	Our Reporting to you: 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 Plan, December 2021 Audit results report, January 2022 (TBC)
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report, January 2022 (TBC) meeting of the Audit and Scrutiny 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 the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	
Representations	▶ Written representations we are requesting from management and/or those charged with governance	Assurance Letter to be received shortly after year-end.
Material inconsistencies and misstatements	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report, January 2022 (TBC) meeting of the Audit and Scrutiny Committee.
Auditors report	▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report	

Appendix B

Required communications with the Audit and Scrutiny Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Group Audits	‣ An overview of the type of work to be performed on the financial information of the components ‣ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ‣ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ‣ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ‣ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Plan, December 2021 Audit Results Report, January 2022 (TBC)

Appendix C

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 02, 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, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and Maintaining auditor independence.

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 locations at which we conduct audit procedures to support the opinion given on the financial statements; and 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.