Brentwood Borough Council

Audit planning report

Year ended 31 March 2022

3 July 2023

Building a better working world

3 July 2023

Audit & Scrutiny Committee
Brentwood Borough Council
Town Hall
Brentwood

Dear Audit & Scrutiny Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit 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 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Brentwood Borough Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit & 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 11 July 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours sincerely

Elizabeth Jackson

For and on behalf of Ernst & Young LLP

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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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).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 July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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 & Scrutiny Committee and management of Brentwood Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & 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 & Scrutiny Committee and management of Brentwood Borough Council 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 outlined in this report. It seeks to provide the Audit & 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
Risk of fraud in revenue and expenditure recognition - 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 believe the risk of manipulation is most likely to manifest in the incorrect capitalisation of revenue expenditure through either inappropriate additions to Property, Plant and Equipment (PPE) and Investment Property (IP) or incorrect classification of expenditure as Revenue Expenditure Funded from Capital Under Statute (REFCUS), as there is an incentive to reduce expenditure which is funded from Council Tax.
Misstatements due to fraud or error (management override)	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks. 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.
Valuation of PPE using Existing Use Value (EUV) and Investment Property (IP) at Fair Value (FV) method	Significant risk	No change in risk or focus	The value of these assets represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods.
Valuation of SAIL investment property	Significant risk	No change in risk or focus	The Council's wholly owned subsidiary, Seven Arches Investment Limited (SAIL) has a significant investment property portfolio. The valuation of these are assets are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & 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
Valuation of PPE using Depreciated Replacement Cost (DRC) method and HRA properties	Inherent risk	Decrease in risk or focus	The value of land and buildings in PPE under DRC and HRA properties also represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a lesser degree of material judgmental inputs and apply estimation techniques to calculate these balances held in the balance sheet and HRA notes. Although there is a risk for land and buildings under DRC due to the specialised nature of these assets and insufficient availability of market-based evidence to assist the valuation, these assets and HRA properties are inherently not subject to material uncertainty arising due to market conditions.
Accounting for Pension Fund Liability	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 highly 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 to the administering body. As with other Councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.
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, 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. The Council's other jointly owned company, Brentwood Development Partnership, also needs to be considered for the group accounts boundary to determine if any balances or transactions in 2021/22 require it to be consolidated.

Overview of our 2021/22 audit strategy

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Infrastructure Assets	Inherent risk	No change in risk or focus	In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code of Local Authority Accounting, these assets are held at depreciated historic cost. Following more detailed consideration by auditors this year, it has been identified that whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulation is therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated. Our work in 2020/21 concluded that the Council's infrastructure assets balance was materially fairly stated in 2020/21 financial statements. However, as a consequence of the issue above a statutory override was issued and updated CIPFA guidance. We will ensure the Council's accounting treatment of infrastructure assets complies with any updated guidance and determine whether they need to apply the override.
Minimum revenue provision (MRP)	Inherent risk	Decrease in risk or focus	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. We identified a fraud risk in relation to MRP in 2020/21, due to the Council's increase in financing. Our expert reviewed the MRP calculation and identified areas of incorrect interpretation of the guidance and an error in the 2020/21 accounts. We determined this was not fraudulent activity by management as the practice followed was agreed with their management expert. Therefore, we have reduced the level of risk to inherent for the 2021/22 accounts to follow up on action taken by management, since we made the recommendations in the prior year, and to ensure the accounts are materially fairly stated for MRP.
Grant income related to Covid-19	Inherent risk	No change in risk or focus	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 2021/22 statements.

Overview of our 2021/22 audit strategy

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

Overview of our 2021/22 audit strategy

Group materiality

Planning materiality

£1.09m

Group materiality has been set at £1.09m, which represents 2% of the gross expenditure on provision of services in the 2021/22 draft financial statements.

Performance materiality

£0.818m

Group performance materiality has been set at £0.818m, which represents 75% of materiality.

We considered whether this level remains appropriate due to the number of amendments made to the prior year accounts. As the majority of amendments related to capital accounting and mainly the valuation of the assets, we determined that 75% remains appropriate as we have significant and inherent risks for the Council and SAIL assets to ensure specific focus is given to these balances.

Audit differences

£54k

We will report all uncorrected misstatements relating to the group statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account, and collection fund) greater than £54k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Scrutiny Committee.

Overview of our 2021/22 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Brentwood Borough Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and

- Our 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.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several 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 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 Brentwood Borough 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

Value for money reporting

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. As the Council produces group accounts we will consider the group boundary through the Council's arrangements that it has in place for oversight of the group.

- 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

We are completing the 2021/22 audit in one audit visit from end June to early August.

We are aiming to present the Audit Results Report to the September committee meeting.

Audit team changes

The manager for the 2021/22 audit has changed to Martina Lee. Martina has been introduced to key members of the finance team and is an experienced manager in auditing public sector accounts.

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.

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure *

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing expenditure and increasing additions to PPE.

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.

Brentwood Borough Council has a significant fixed asset base and as a result has a significant level of capital additions totalling £13.2m in the 2021/22 draft financial statements. Therefore we have concluded there is a potential risk that revenue expenditure could be incorrectly classified as capital.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Obtain a general ledger (GL) breakdown of capital additions in the year, reconciling to the Fixed Assets Register (FAR), and review the GL descriptions to identify whether there are any potential transactional items that could be revenue in nature;
- Sample test additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Use our data analytics tool to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes within the general ledger.

Our response to significant risks (continued)

Misstatements due to fraud or error - management override *	What is the risk?	What will we do?
	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.	We respond to this risk by: • Identifying fraud risks during the planning stages; • Inquiring 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; • Considering 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 and other adjustments in the preparation of the financial statements.

Our response to significant risks (continued)

Valuation of Land and Buildings in Property, Plant & Equipment (PPE) under Existing Use Value (EUV) and Investment Properties under Fair Value (FV)

Financial statement impact

The valuation of land and buildings and investment properties represent material figures within the Council's financial statements.

Those valuations are reliant upon judgements and assumptions which can have a material impact on the values on the Council's balance sheet.

The draft 2021/22 financial statements show land and buildings assets were valued at £152.5m (combination of EUV and DRC valuation basis) and Investment Properties at £17.8m.

What is the risk?

The valuation of land and buildings valued on an EUV basis and investment properties valued on a FV basis represent material figures within the Council's financial statements.

The valuation of these assets is reliant upon expert valuations 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.

What will we do?

We will:

- 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;
- Challenge the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists, as necessary, for example for significant or unusual movements in valuation, difficult to value specialist assets, etc.;
- Sample testing key asset information used by the valuer in performing their valuation, e.g. building areas to support valuations based on price per square metre;
- Consider the annual cycle of valuations to ensure that all relevant properties have been valued within a 5 year rolling programme as required by the Code for PPE, and annually for IP. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2021/22 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; and
- Test accounting entries have been correctly processed in the financial statements.

Our response to significant risks (continued)

Valuation of SAIL investment property

Financial statement impact

The valuation of SAIL investment properties represents a material figure within the Group financial statements.

Those valuations are reliant upon judgements and assumptions which can have a material impact on the values on the Group balance sheet.

The draft 2021/22 financial statements show these assets were valued at £60.1m.

What is the risk?

The Council's wholly owned subsidiary, Seven Arches Investment Limited (SAIL) has a significant investment property portfolio.

The valuation of these are assets are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods.

What will we do?

We will:

- 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;
- Challenge the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists, as necessary, for example for significant or unusual movements in valuation, difficult to value specialist assets, etc.;
- Sample testing key asset information used by the valuer in performing their valuation, e.g. building areas to support valuations based on price per square metre;
- Consider that all IP has been valued annually. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

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 2022, the net liability arising totalled £31.8 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 • 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 recalculate the liability using their own model and inputs from the IAS 19 report and Triennial report.
Infrastructure Assets An issue was raised through the National Audit Office's Local Government Technical Group during 2022 that some local authorities were not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part / component has been replaced or decommissioned. We concluded that the Council's infrastructure assets balance was materially fairly stated in 2020/21 financial statements. However, following the guidance issued by DLUHC and CIPFA's adaption to the Code of Practice on Local Authority Accounting in December 2022 we will focus testing on the useful economic lives and records held to support the assets to ensure the new approach to infrastructure assets is in place for all assets.	We will: • Understand the Council's Infrastructure Assets balance and the individual assets comprising this balance; • Sample test expenditure additions to Infrastructure Assets to test whether they are additions to an asset or are replacements component of an asset; • Review the useful economic lives to determine if they are in line with the expected lives set out in the guidance; and • Determine the Council's approach to writing out gross cost and accumulated depreciation on the Infrastructure Assets balance and any replacement additions to determine whether this is materially correct at the balance sheet date.

Other areas of audit focus (continued)

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?
Valuation of Land and Buildings using DRC and HRA properties The value of land and buildings in PPE using DRC method and HRA properties also represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a lesser degree of material judgemental inputs and apply estimation techniques to calculate these balances held in the balance sheet and HRA notes. Although there is a risk for land and buildings under DRC due to the specialised nature of these assets and insufficient availability of market-based evidence to assist the valuation, these assets and HRA properties are inherently not subject to material uncertainty arising due to market conditions.	We will: • 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, e.g. floor plans to support valuations based on price per square metre; • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Review assets not subject to valuation in 2021/22 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; and • Test accounting entries have been correctly processed in the financial statements.

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 2021/22 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.

Other areas of audit focus (continued)

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?
<u>Group accounts</u> Seven Arches Investment Limited (SAIL), wholly owned investment company, has material balances and transactions in their accounts as at 31 March 2022, which the Council needs to consolidate. There is a risk that the Group accounts are incorrectly prepared with the changing nature of the size of SAIL. There is also the risk that balances and transactions increase in the other entities in the group boundary that the Council needs to assess every year to determine whether they need to be consolidated.	We will: • Review the Council's group boundary assessment to determine which entities fall within scope of the group accounts for 2021/22; • Perform our own testing of all material balances and transactions in the subsidiary accounts; • Liaise with the subsidiary auditor to ensure we understand work undertaken by them and findings in any area we are placing reliance on them; and • Review the consolidation work to ensure the Group accounts are materially fairly stated.
<u>Minimum Revenue Provision</u> 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. We identified a fraud risk in relation to MRP in 2020/21 due to the Council's increase in financing. Our expert reviewed the MRP calculation and identified areas of incorrect interpretation of the guidance and an error in the 2020/21 accounts. We determined this was not fraudulent activity by management as the practice followed was agreed with their management expert. Therefore, we have reduced the level of risk to inherent for the 2021/22 accounts to follow up on action taken by management, since we made the recommendations in the prior year, and to ensure the accounts are materially fairly stated for MRP.	We will: • Review any updated advice received from the Council's management expert in responding to the findings and recommendations from the 2020/21 audit, engaging with our auditor expert as required; • Determine the impact on the 2021/22 audit report for the uncorrected misstatement in the 2020/21 accounts; and • Review the MRP calculation for 2021/22.

Other areas of audit focus (continued)

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?
Going Concern Covid-19 has created a number of financial pressures throughout local government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced some income losses. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.	In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will seek documented and detailed consideration to support management's assertion regarding the going concern basis. Our audit procedures to review these will include consideration of: • Current and developing environment; • Liquidity (operational and funding); • Mitigating factors; • Management information and forecasting; and • Sensitivities and stress testing. Due to the impact of Covid-19, we will consult internally, if required, with our risk department over the level of appropriate disclosure.

03 Value for Money Risks

Value for Money

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.

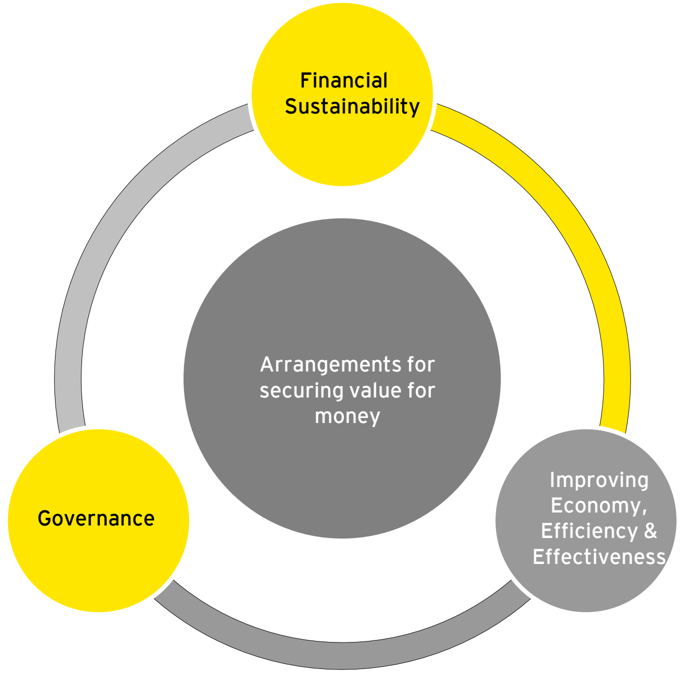
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its 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 arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice 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. The 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.
- 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.



Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires 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.

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 and other bodies; and
- Any other evidence source that we regards 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 (where applicable), 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 of significant weakness

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 and Scrutiny Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The 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 have yet to complete our detailed VFM planning. However, one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability due to the high level of borrowing and the fluctuating valuation of investment assets.

We will update the next Audit and Scrutiny Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

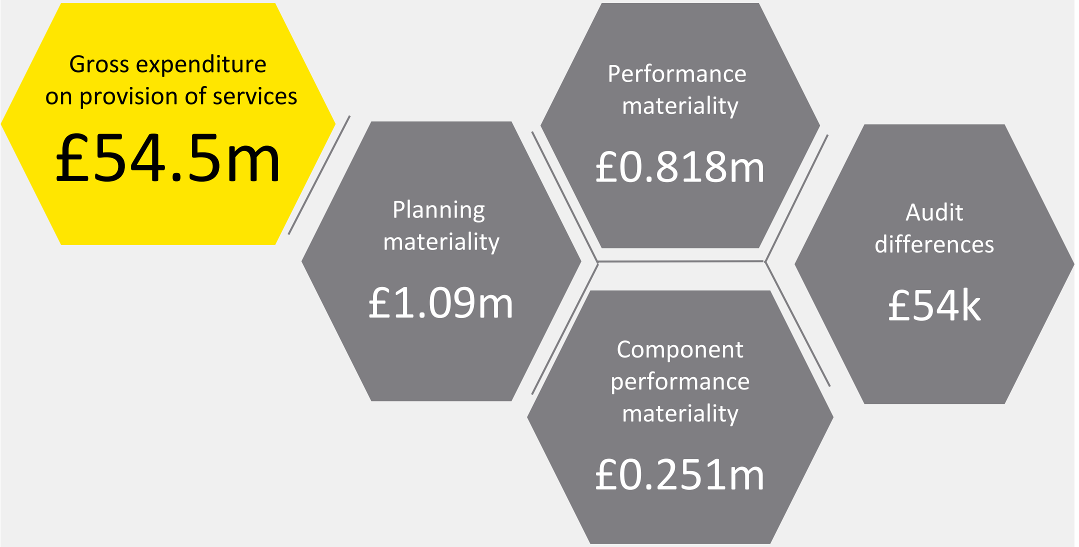
04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £1.09m. This represents 2% of the Council's gross expenditure on provision of services in the 2021/22 draft financial statements. It will be reassessed throughout the audit process.

Gross operating expenditure is the most appropriate basis for determining planning materiality for a public sector body and at the moment we consider misstatements greater than 2% of gross operating expenditure to be material. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. We have provided supplemental information about audit materiality in Appendix C.



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 £0.818m which represents 75% of planning materiality. We considered whether this level remains appropriate due to the number of amendments made to the prior year accounts. As the majority of amendments related to capital accounting and mainly the valuation of the assets, we determined that 75% remains appropriate as we have significant and inherent risks for the Council and SAIL assets to ensure specific focus is given to these balances.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. A different threshold for misstatements is used for component reporting of £16k. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account 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.

Materiality

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 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: we will agree all disclosures back to source data, especially for any significant exit packages paid in the year.
- 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

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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.

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 Audit and Scrutiny Committee.

Internal audit:
We will meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will consider 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 we assess could have a material impact on the financial statements.

Audit scope – group audit

Brentwood Borough Council consists of the group entity and the single entity. The group entity comprises the following subsidiaries:

- Seven Arches Investment Limited (SAIL) – full scope audit to be performed, company is consolidated into the group financial statements
- Brentwood Development Partnership – not consolidated into the group financial statements, on the Council's basis of it being immaterial

We intend to take a substantive audit approach to the work and there are no changes from the approach taken in prior year.

We do not intend to rely on component or non-EY auditors for our work.

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.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

2	A	Full scope audits
0	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
1	E	Other procedures

Scope definitions

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.

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.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

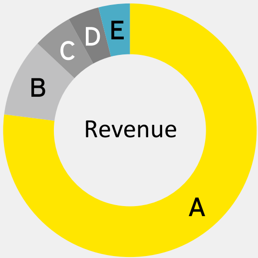
Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

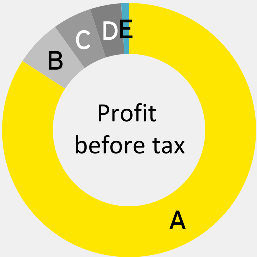
Scoping the group audit

Coverage of Revenue/Profit before tax/Total assets

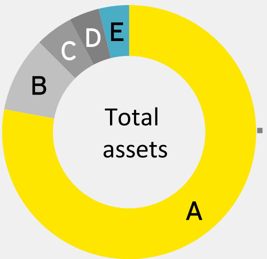
Based on the group's draft financial statements 2021/22, our scoping is expected to achieve the following coverage of the group's revenue, profit before tax and total assets.



100% of the group's revenue will be covered by full scope audits.



100% of the group's profit before tax will be covered by full scope audits.



100% of the group's total assets will be covered by full scope audits.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Key changes in scope from last year

There are no changes in scope from the work performed in prior year.

Details of other procedures

In order to verify that no material misstatement exists in the group financial statements due to Brentwood Development Partnership not being consolidated, on the Council's basis of it being immaterial, we will perform other procedures:

- Considering the Council's group assessment for non-consolidation of Brentwood Development Partnership;
- Checking whether there are any balances above our component performance materiality; and
- Testing any balances our component performance materiality.

06 Audit team

Audit team

Elizabeth Jackson will continue to be the Engagement Lead for 2021/22, while the manager has changed to Martina Lee and the audit senior has changed to Cyr Mendoza. Working collaboratively with the Council's finance team, we will ensure that the audit delivers high quality and value to the Trust.

Use of specialists

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

Area	Specialists
Valuation of land and buildings	The Council's external valuer and EY Real Estates (if required, see narrative below)
Valuation of pension amounts	PWC and EY Actuaries

We will review the output from the revaluation of land and buildings for 2021/22 and consider whether this is in line with our expectations. If necessary, we can call on the assistance from the EY Estates team where the valuation is out of line with our expectations.

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

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.

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	June		
Year end audit: Substantive testing	July	Audit and Scrutiny Committee	Audit Planning Report
Year end audit: Substantive testing	August		
Audit completion procedures	September	Audit and Scrutiny Committee	Audit Results Report Audit opinions and completion certificates
Audit completion procedures	October		Auditor’s Annual Report including commentary on VFM arrangements

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; and ▸ 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 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 Elizabeth Jackson, your audit engagement partner and the audit engagement team have not been compromised. We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019 which was effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We confirm that we have no contingent fee arrangements with the Council. We do not provide any non-audit services and have no plans to provide non-audit services, which would be prohibited under the new standard. At this stage we have not identified any issues to report to you relating to our independence

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 reporting period from 3 July 2021 to 1 July 2022: EY UK 2022 Transparency Report | EY UK

09 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

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.

A breakdown of our fees is shown in the table below.

	Scale fee 2021/22	Final Proposed Fee 2020/21
	£	£
PSAA scale fee (Note 2)	54,288	52,365
Scale fee rebasing (Note 1)	36,001	36,001
VFM risks		28,000
New ISA 540 & VFM work		8,500
Other scale fee variation		11,761
Total audit related fees	90,289	136,627

All fees exclude VAT

Note 1 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work, and in order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £36,001 to deliver the audit in 2020/21, which we expect to reoccur in subsequent years.

Note 2 - For 2021/22 the scale fee represents the base fee, i.e. not including any extended testing. However, this will be impacted by a range of factors, as detailed in this Audit Plan, which will result in additional work. As we have identified significant risks, as set out in this audit plan, we expect to have to undertake additional work which will also result in an additional fee.

We are not able to quantify the additional fee for 2021/22 at this stage of our planning, but we will discuss this with management as our audit progresses and the scope and scale of our additional work can be clarified.

Final fees will be subject to determination by PSAA.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

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

Required communications with the Audit Committee

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

Required communications	What is reported?	Our Reporting to you 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.	Audit planning report - 3 July 2023
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 planning report - 3 July 2023 Auditor's Annual Report - October 2023

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	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 - September 2023
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 • Material misstatements corrected by management	Audit results report - September 2023
Subsequent events	• Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit results report - September 2023
Fraud	• Enquiries of the Audit and Scrutiny 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 • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Scrutiny Committee responsibility	Audit results report - September 2023

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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 2023
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 Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report – 3 July 2023 Audit results report – September 2023

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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 2023
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit and Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Scrutiny Committee may be aware of	Audit results report – September 2023
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report – September 2023

Required communications with the Audit 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 planning report – 3 July 2023 Audit results report – September 2023
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – September 2023
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – September 2023
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report – September 2023 Auditor's Annual Report – October 2023
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	Audit planning report – 3 July 2023 Audit results report – September 2023
Value for Money	• Risks of significant weakness identified in planning work • Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit planning report – 3 July 2023 Audit results report – September 2023 Auditor's Annual Report – October 2023

Additional audit information

Objective of our audit
Our objective is to form an opinion on the Council's and Group's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with 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 and Scrutiny 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 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 Group and 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 Group and Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Scrutiny Committee reporting appropriately addresses matters communicated by us to the Audit and Scrutiny 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.

ED None