Wokingham Borough Council

Audit planning report

Year ended 31 March 2020

March 2020

Building a better working world

Audit Committee
Civic Offices,
Shute End
Wokingham, RG40 1BN

13 May 2020

Dear Audit Committee Members

Audit planning report

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 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 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 the Council, and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing, and we will update the Audit Committee should any further matters come to our attention that impact the assessment of key issues or our audit scope.

This report is intended solely for the information and use of the Audit 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 3 June 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

Contents

01 Overview of our 2019/20 audit strategy

02 Audit risks

03 Value for Money Risks

04 Audit materiality

05 Scope of our audit

06 Audit team

07 Audit timeline

08 Independence

09 Appendices

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 Committee and management of Wokingham Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance and Audit Committee, and management of Wokingham 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 Governance and Audit Committee, and management of Wokingham 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 2019/20 audit strategy

Overview of our 2019/20 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
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.
Risk of fraud in revenue and expenditure recognition – incorrect capitalisation of expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of Land and Buildings	Significant risk	Increase in risk or focus	The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) 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, covering both those assets that are revalued within the year and the continuing material accuracy of those valued in prior periods.
Pension Liability Valuation	Significant risk	Increase in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Windsor & Maidenhead Council, the Berkshire Pension Fund Administrator. 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. In 2018/19, late changes were required to disclosures in the financial statements arising from the McCloud legal judgement. There could be further impact for 2019/20 should any further developments arise.

Overview of our 2019/20 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Going concern	Inherent risk	Increase in risk or focus	Going Concern Compliance with ISA 570. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.
PFI Estimates	Inherent risk	No change in risk or focus	PFI is a complex area and we commissioned a detailed review of the RE3 Waste PFI arrangements for Bracknell, Reading and Wokingham Councils by our PFI specialist for the 2018/19 financial statements. This included a review of the assumptions used in the RE3 PFI accounting model, comment on local adjustments made to the model. We will review the planned entries and disclosures for the Council's 19/20 accounts.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality
£6.353m

Materiality has been set at £6.353m, which represents 2% of the prior year's gross expenditure on provision of services.

Performance materiality
£4.764m

Performance materiality has been set at £4.764m, which represents 75% of planning materiality.

Audit differences
£318k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, and collection fund) greater than £318k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2019/20 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 Wokingham Borough Council, and the group, give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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 identified during the audit.

Misstatements due to fraud or error*	What is the risk?	What will we do?
Financial statement impact Misstatements that occur in relation to the risk of fraud and error could materially affect the income and expenditure accounts. While there are no statutory financial performance targets in local government, management remains under pressure to ensure that the Council balances its annual budgets as central funding continues to reduce.	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.	Our procedures include: • asking management about risks of fraud and the controls to address those risks; • understanding the oversight given by those charged with governance of management's processes over fraud; and • considering the effectiveness of management's controls designed to address the risk of fraud. We also perform mandatory procedures regardless of specifically identified fraud risks, including: • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • assessing accounting estimates for evidence of management bias; and • evaluating the business rationale for significant unusual transactions. As well as our overall response, we specifically consider where these risks may occur, and identify separate fraud risks as necessary.

Our response to significant risks (continued)

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, through inappropriate capitalisation of revenue expenditure*

83

Financial statement impact

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 revenue expenditure and increasing additions to Property, Plant and Equipment (PPE).

The value of PPE additions in 2018/19 was £111m. This risk might be extended to cover Revenue Expenditure Funded from Capital Under Statute (REFCUS), if the value is material for 2019/20.

What is the risk?

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

We have assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What will we do?

We will:

- review and test revenue and expenditure recognition policies;
- review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- develop a testing strategy to test material revenue and expenditure streams, and review and test any material revenue cut-off at the year end;
- review in-year financial capital projections and compare them to the year-end position;
- test PPE additions using lowered testing thresholds, to ensure they are appropriately supported by documentary evidence, and that the expenditure incurred and capitalised is clearly capital in nature; and
- seek to identify and understand the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year.

This risk might be extended to cover REFCUS, if the value is material for 2019/20.

Our response to significant risks (continued)

We have set out the significant risks 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.

Valuation of land and buildings – Property Plant and Equipment and Investment Properties

Financial statement impact

The Council's land and buildings valuation is a material item. Small changes in assumptions when valuing them can have a material impact on the financial statements.

We have reflected on the significance of the valuations in the Council's balance sheet, as well as the complexity involved in applying the correct valuation methodology for each type of asset.

What is the risk?

The Local Authority Accounting Code of Practice require the Council to make extensive disclosures within its financial statements regarding its land and buildings.

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents a significant balance, at £871.405 million and £17.077 million respectively, in the Council's accounts as at 31 March 2019 and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Given the fact that the Council has purchased a significant number of Investment Properties during 2019/20 and given the current uncertainty in the property market, we classify this as a significant risk.

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;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated at 31 March 2020;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test to confirm that accounting entries have been correctly processed in the financial statements.

In considering the above, we will assess the Council's approach to recognise any impact on valuations at 31 March 2020 arising from COVID-19. We will be asking our EY Real Estate specialists to assist us in this work.

Our response to significant risks

We have set out the significant risks 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.

Pension Net Liability Valuation

Financial statement impact

The Council's pension fund deficit is a material and sensitive item. Small changes in assumptions when valuing it can have a material impact on the financial statements. The Code requires the Council to disclose this net liability on the Council's Balance Sheet.

We have reflected on the significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size, in the current uncertain economic environment, and classified this as a significant risk.

What is the risk?

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 Berkshire County Council Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead (RBWM).

At 31 March 2019 the pension fund deficit totalled £291.272 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund Administrator.

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.

In the prior year, the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Council's actuary to be basing their assumptions taking into account the Council's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.

What will we do?

We will:

- liaise with the auditors of the Berkshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Wokingham Borough Council. We discuss the issue of the planned scoping and reporting of their work in the next section "Working together".
- 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 Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We have had an early discussion with the Pension Fund auditor to understand the timetable for their work. This was before the recent changes to local authority accounts deadlines, and so further discussions will be held to ensure there is a joint understanding of the timetable and the impact for Wokingham Borough Council.

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?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' NAO guidance notes to auditors accepts that whilst the technical position regarding the going concern basis of accounting is clear, there may be a tension between the going concern assumption and the significant resource issues some authorities are facing. It is therefore important that authorities and auditors are aware of the requirements for assessing going concern in the local government context and consider the requirements of IAS 1 and the accounting code. Where relevant, this may require the inclusion of appropriate disclosure, for example within the narrative report.	The revised standard requires: • auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias; • greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements; • improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. Whilst the Council are not one of the three entity types listed above, at the time of writing this report, it is not yet established what additional reporting requirements maybe required for those entities falling outside these definitions. We will ensure compliance with any updated reporting requirements once they are defined; • a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and • necessary consideration regarding the appropriateness of financial statement disclosures around going concern. The revised standard extends requirements to report to regulators where we have concerns about going concern. We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21, and we will also consider the impact of Covid-19 on the disclosures for 2019/20.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
PFI Accounting The Council has one waste PFI arrangement with the Waste Recycling Group RE3 Limited. This is a joint PFI contract (entered into in 2006/07) with Reading and Bracknell Forest Councils for the disposal of waste. The total value of the contract is estimated to be £117.3 million as at 31 March 2019, to be shared between the Councils based on usage. Actual payments are based on the contractor's performance as well as that of the individual councils in waste collection. Estimated payments to be made by Wokingham Borough Council under the contract are £43.64 million over the next 15 years of the contract. As part of the contract, the contractor built a transfer station, materials recycling facility, civic amenity site and offices. The Council's share of the assets, valued at £10.19 million as at 31 March 2019, are recognised as Property, Plant and Equipment on the Council's Balance Sheet. The liability resulting from the contract, at the end of March 2019, was reported as £6.45 million.	PFI is a complex area and we commissioned a detailed review of the RE3 arrangements, for the three councils involved, namely Bracknell Forest, Reading and Wokingham Borough Councils as part of the 2018/19 audit, Our work, by our PFI specialist, in 2018/19, included: • a review of the assumptions used in the RE3 PFI accounting model; and • comment on local adjustments, if any, by Wokingham Council, made to the output from the RE3 model held by the host council, Reading Borough Council. For the 2019/20 audit, we will review the planned entries and disclosures for the Council's accounts and ensure that they are consistently reported across the three councils.

03 Value for Money Risks

Value for Money

Background

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. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

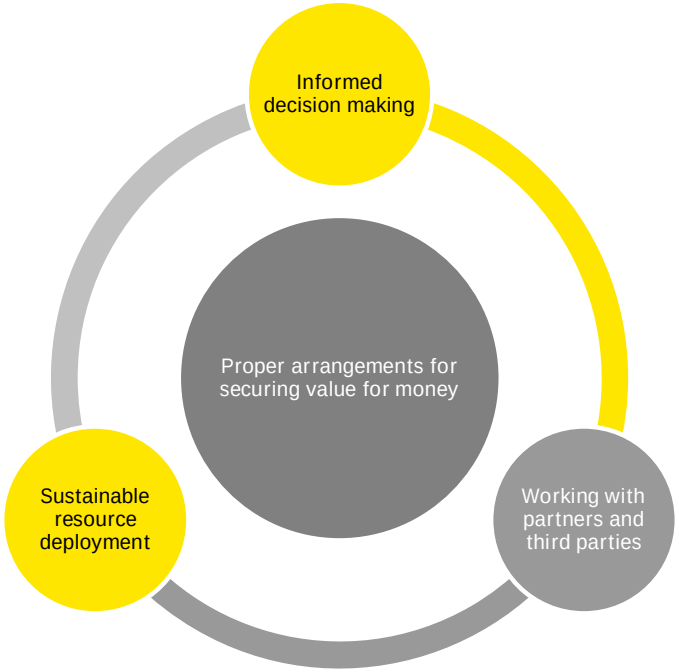
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

Our risk assessment has, therefore, considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At the time of our planning, this has resulted in the following significant risks relevant to our value for money conclusion:

- Commercialisation and the purchase of investment properties; and
- Effectiveness of the Governance and Risk Management Framework



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Commercialisation and the purchase of investment properties		
The Council has plans to develop some £85 million of significant commercial and investment opportunities to generate more income. The Council's 21st Century transformational change programme is critical in enabling the Council to delivering the level of savings needed for a sustainable financial future. Progress has been made against the target of £3.3 million of savings over 2019/20, which is in additional to some 22.8 million of savings delivered in the past four years. Paragraph 46 of the Statutory Guidance on Local Government Investments states that 'Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'. However, para 47 of the Statutory Guidance also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management. The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order. Additionally, the Statutory Guidance on Minimum Revenue Provision (MRP) applying from 1 April 2019 includes the requirement to establish an MRP policies, and paragraph 45 states that the duty to make MRP extends to investment properties where their acquisition has been funded by an increase in borrowing or credit arrangements. The Guidance's commentary sets out this is to ensure Council's provide for debt taken on to finance the asset over the period of that debt, with a maximum period of 50 years, consistent with the maximum period of PWLB borrowing. The Council's current policy does not make MRP on its investment properties.	Deploy resources in a sustainable manner	We will review: • the underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives; • legal powers and other advice obtained e.g. tax, investment decisions; • compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; • the Council's MRP policy; • clarity of governance arrangements for the Council's decision making with regard to their investment property purchases; • recognition and reporting of risks in the corporate/strategic risk register We will also consider the extent to which the Council has demonstrated the key Prudential Code considerations: • existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality • demonstrating value for money in borrowing decisions • security of borrowed funds • extent of borrowing for investments and borrowing overall • the nature of the investment • risks involved, including falling capital values, borrowing costs, illiquidity of assets.

Value for Money Risks

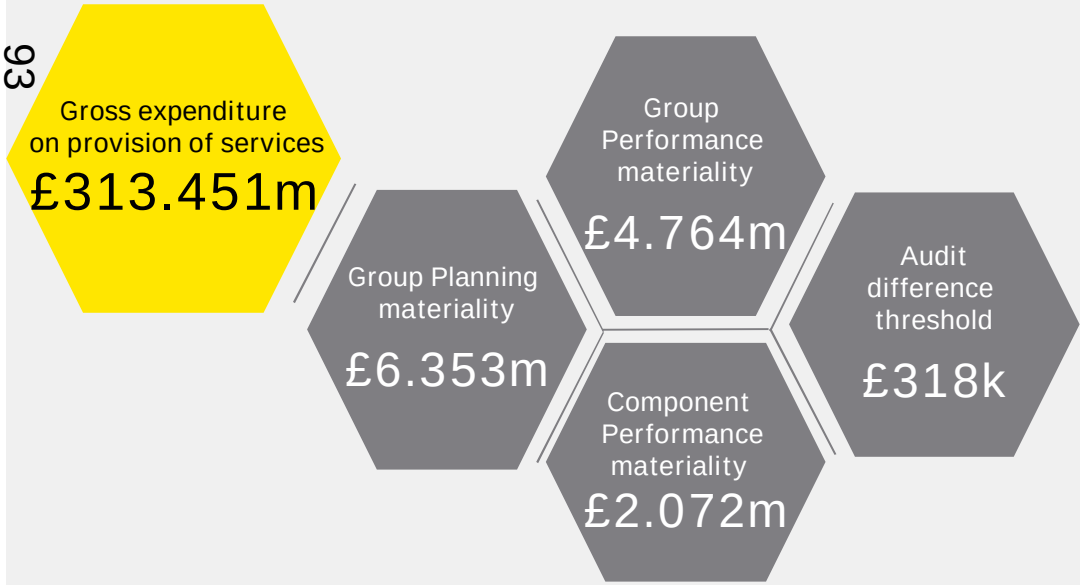
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Effectiveness of the Council's Governance and Risk Management Framework		
The Council's Local Code of Corporate Governance (LCCG) is a useful tool outlining the design of the Council's Governance and Risk Management Framework. The Council's Annual Governance Statement (AGS) states that governance is operating in accordance with its LCCG. However, from our audit planning work we have identified some areas where: • governance procedures could be more effective; and • strengths and areas for improvement could be better disclosed in the 2019/20 Annual Governance Statement. In term of more effective governance, we have found, to date, that: • the Risk Management Strategy and Guidance have not been updated since 2014 and do not reflect the current role of the Audit Committee in risk management; • risk management may be better embedded if corporate risks are aligned to the delivery of the Council's strategic objectives in the Council Delivery Plan; • the Council's risk profile is high with 11 of 13 risks at high (8) or very high (3), which is contrary to the Council's low risk targets in the Risk Register; • there are few clear actions documented on the Corporate Risk Register on how risk is to be effectively manged down to the lower targets. Adequate risk management is required for members and officers to take informed decisions. We will, therefore, review the effectiveness of the Council's Risk Management Framework and how this may be further improved. The disclosures in the 2019/20 AGS could be improved so that the AGS better describes the effectiveness of the Council's governance arrangements in year, any significant weaknesses and action plans for the resolution of prior year issues and issues going forward. The Council should be disclosing how the Council's Assurance Framework complies with its LCCG with a clearer statement on how the Council is achieving its strategic objectives and addressing areas for improvement. We will discuss the production of a more informative Annual Governance Statement for 2019/20 as part of our review of the Council's Governance and Risk Management Framework.	Take informed decisions	Our approach will focus on: ► review of the adequacy of the Council's risk management arrangements; ► compliance with the Council's Local Code of Corporate Governance; ► disclosures to be made in the Council's 2019/20 Annual Governance Statement on the effectiveness of the Council's Governance and Risk Management Framework.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £6.353m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have set materiality using gross revenue expenditure as our expectation is that users of the Council's accounts are focussed on how it uses its resources to provide services to local people. We have used 2% based on our assessment of the Council's financial position, levels of public interest, lack of planned reorganisations and sources of borrowing.



We request that the Audit 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 £4.764m which represents 75% of planning materiality. The rationale for using 75% is based on the anticipation of identifying few or no errors during the audit. This expectation has been built on our experience of the Council in prior years.

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. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and collection fund. 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 Committee, or are important from a qualitative perspective.

Specific materiality – We have also set a materiality of £1k for remuneration disclosures, related party transactions, members' allowances and exit packages, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.

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 review and report on the Council's Group and single entity financial statements and 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, for the Council and the Group, 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)

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.

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 2019/20 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 Policy & Organisation Board. The successful use of analytics and a technologically enabled audit is an underpinning concept of our contract with PSAA.

Internal audit:

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

Scoping the Group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple components 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. These procedures are detailed below.

Scoping by component

97

Our preliminary audit scopes by component are set out below.

Optalis Holdings Ltd	A	Full scope audit
Berry Brook Homes Ltd	B	Specific scope audit
Wokingham Holdings Ltd (includes Loddon Homes Ltd and Wokingham BC Housing Ltd)	C	Review scope audit

Scope definitions

Full scope: For Optalis Holdings Ltd, we perform a full audit using the materiality levels assigned by the Group audit team, as this component has a gross spend of some £44.4 million which at 13.3% of the Group is material in size.

Specific scope: For Berry Brook Homes Ltd, we limit the audit to two specific accounts, namely PPE and long-term liabilities. These balances at £19.229 million and £14.593 million respectively, are material for the Group audit.

Review scope: Wokingham Holdings Ltd (which include Loddon Homes Ltd and Wokingham BC Housing Ltd) represent some 1.3% of the Group PPE balance but are not significant based on size. The risks recognised at group level do not raise risk of material misstatement in this component. We, therefore, carry out procedures which primarily consist of analytical procedures and inquiries of management to confirm that there is no risk of material misstatement.

06 Audit team

Audit team and Working together with

Audit team structure:

Helen Thompson
Associate Partner
hthompson2@uk.ey.com

Justine Thorpe
Manager
jthorpe@uk.ey.com

Francesca Churchhouse
fchurchhouse@uk.ey.com

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2019/20 audit.

Specifically, given the current restrictions arising from COVID-19 and the changes in the local authority accounts reporting deadlines, we have arranged regular calls with the finance team to keep in touch and discuss emerging issues.

Changes to the audit team

Justine and Francesca have joined the audit team as Manager and Lead Senior for 2019/20. Justine has worked in public sector audit for some 20 years, having previously worked for the Audit Commission. Francesca has worked for EY for more than 4 years, and have both have significant experience of managing and leading teams across a range of local government clients.

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	Management specialist: Council's Internal Valuer for PPE and IP EY Specialist: EY Valuations ream
Pensions disclosure	Management specialist: Barnett Waddington EY Specialists: EY Actuaries and PWC Actuary commissioned by NAO

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 an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chairs 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	January / February		
Interim audit testing and completion of walkthrough of key systems and processes	March / April		
	June	3 June 2020	Audit Planning Report
Year end audit Audit Completion procedures	July / August	24 July 2020	Audit Progress Report
Audit Completion procedures	September	25 September 2020	Audit Results Report Audit opinions and completion certificates
	November	4 November 2020	Annual Audit Letter

08 Independence

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 June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ 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 any contingent fee arrangements for non-audit services provided by us or our network firms; 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 also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

We believe that it is appropriate for us to undertake 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. The ratio of non audit fees to audits fees is not permitted to exceed 70%. At the time of writing, we have proposed to under take the role of reporting accountant for the DWP's Housing Benefit Assurance Process (HBAP). We have determined appropriate safeguards.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

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 2019

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 ended 1 July 2019 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed. Note that currently the Council does not fall under the definition of a PIE.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

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 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from for 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

09 Appendices

Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police bodies.

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

	Indicative fee 2019/20	Scale fee 2019/20	Final Fee 2018/18
	£	£	£
Total Code audit fee	81,325	81,325	81,325
Additional audit fees	Tbc (Note 3)	0	16,600 (Note 2)
Total fees	81,325	81,325	97,925
HB Assurance fee	(Note 1)	0	(Note 1)

All fees exclude VAT

Note 1: The HB final fee of £10,644 has yet to be agreed. We have yet to agree a fee for the 2019/20 Housing Benefits (HB) Subsidy Claim.

Note 2: We have proposed a total additional fee of £16,600, to cover additional work, for 2018/19, on value for money significant risks (£5,242), work relating to the pension fund (£6,066), PFI (£1,510) and work on the first draft of the financial statements (£3,782). The additional fee remains subject to agreement with officers and the PSAA.

Note 3: In addition we highlight the following areas where we anticipate a variation to the 2019/20 scale fee:

- There are additional risks presented by several areas of the Council's financial statements which require additional audit procedures and the need to engage specialists. This includes, but is not limited to work in relation to the valuation of PPE and the net pension liability as noted on pages 12 and 13.
- Additional work that will be required to address the value for money risks identified, as noted on pages 18 and 19.
- In addition, we are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. As a an illustration, 85 organisations within the PSAA regime had not yet received their 2018/19 audit opinion as at the end of January 2020.

This in combination, is requiring us to revisit with PSAA the basis on which the scale fee was set. The factors behind this are explained in more detail on the following pages.

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.

Appendix A

Fees

A combination of factors mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. In order to assist you to understand the reasons behind this, we have summarised the key factors below.

Summary of key factors
1. Status of sector. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector. • To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit. 2. Audit of estimates. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. • To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists. 3. Regulatory environment. Other pressures come from the changing regulatory landscape and audit market dynamics: • Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors. • This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees

Summary of key factors (cont'd)

4. As a result public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.
   - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.
   - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the Council should be in the current environment. Once this is done we will be able to discuss at a more detailed level with you.

Appendix B

Required communications with Those Charged with Governance

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report (this report)
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report (September 2020)

Appendix B

Required communications with Those Charged with Governance (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 2020)
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report (September 2020)
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 (September 2020)
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 2020)

Appendix B

Required communications with Those Charged with Governance (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit planning report Audit results report (September 2020)
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 2020)
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	Audit results report (September 2020)
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report (September 2020)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report (September 2020)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (September 2020)
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report (September 2020)
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 Audit results report (September 2020)

Additional audit information

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Reading other information published with the financial statements, 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 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.

This page is intentionally left blank