Wokingham Borough Council
Audit planning report

Year ended 31 March 2022

January 2023

Agenda Item 51.

EY
Building a better working world

20 January 2023

Wokingham Borough Council
Audit Committee
Civic Offices
Shute End
Wokingham
RG40 1BN

Dear 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 Wokingham Borough Council, and outlines our planned audit strategy in response to those risks. We have not yet completed our detailed planning procedures and any changes to our risk assessment will be communicated to the Committee at the earliest opportunity, or we will circulate the plan separately if Members prefer.

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 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Janet Dawson

For and on behalf of Ernst & Young LLP

Enc

Contents

17

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 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 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 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 2021/22 audit strategy

2021/22 Audit

2021/22 financial statements audit

In our outline audit plan, presented to the Committee in July 2022, we reflected wider national issues around the factors leading to delays in audit opinions and CIPFA LASAAC paper. In addition there has been the delay to the majority of local government audit reports due to the accounting for infrastructure assets. This has been addressed in the 2020/21 audit and therefore we have not included a risk in relation to this in our audit strategy. However, we will need to keep this under review during the 2021/22 audit.

19

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 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 in risk or focus from prior year	Details
Misstatements due to fraud or error (management override)	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk/ Significant 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.
Valuation of Land & Buildings in PPE and IP	Significant risk	No change in risk or focus	The value of land & buildings in PPE and in IP 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. We identified errors in the previous two years' audits which required material adjustments to the reported land and buildings value in both PPE and IP.

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 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 in risk or focus from prior year	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Royal Borough of Windsor & Maidenhead, the Berkshire Pension Fund Administrator. The Council's pension fund asset is a material estimated balance and the Code requires that this asset 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 Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
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. There is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

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 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 in risk or focus from prior year	Details
Accounting for Public Finance Initiative (PFI)	Inherent risk	No change in risk or focus	The PFI liability and associated expenditure represent material figures within the Council's financial statements. The accounting for a PFI scheme involving reliance on historic accounting models and a number of judgements. Errors within the models or changes in judgement can have a material impact on the financial statements. We therefore recognise the PFI scheme as an area of audit focus. There is a risk the Council fails to account properly for the PFI contract. Due to the size and complexity of the PFI and associated transactions, we believe there is a potential to have an impact on the financial statements. In 2018/19, we commissioned a detailed review of the RE3 Waste PFI arrangements for Bracknell, Reading and Wokingham Councils by our PFI specialist. This included a review of the assumptions used in the RE3 PFI accounting model and commenting on local adjustments made to the model. Our work will focus on any changes to estimates within the model and accounting plus future inflation assumptions.
Group Accounting	Inherent risk	No change in risk or focus	The Council prepares group accounts which involves consolidating the financial statements of its following four subsidiaries: • Optalis Limited that provides Adult Social Care Services; • WBC Holdings (WBCH) Limited that provides social and affordable housing. (WBCH also includes Wokingham Housing Limited, Loddon Homes Limited and Berry Brook Homes Limited as its subsidiaries) These subsidiaries contain accounting entries and balances that can be considered material or significant to the group, and will be classified as either full or specific scope audits. This is consequently an area of potential complexity and judgement requiring regular revision by senior management.

22

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 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 in risk or focus from prior year	Details
Cash and cash equivalents	Inherent risk	No change in risk or focus	The Council has a number of imprest bank accounts within its portfolio that were not reconciled on a regular basis in prior years, resulting in unexplained differences between the Council's accounting records and statements from the relevant financial institutions. Although these differences have not been material, there is a need to perform reconciliations on these accounts to ensure appropriate record keeping and prevent any undetected irregularities.

Overview of our 2021/22 audit strategy

Group Materiality

Planning materiality £8.48m	Materiality has been set at £8.48m, which represents 2% of the final 2020/21 gross expenditure on provision of services. The amount we consider material at the end of the audit may differ from our initial determination, and will be determined on receipt of the draft 2021/22 financial statements in February 2023. In addition we will also consider items which are 'qualitatively' material to the users of the financial statements. This includes the remuneration report disclosures subject to audit and the disclosure of losses & special payments. Errors identified in these areas will be individually assessed based on their impact to the users of the financial statements.
Performance materiality £4.24m	Performance materiality has been set at £4.24m, which represents 50% of materiality. See section 04 for further details.
Audit differences £424,000	We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £424,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

24

Overview of our 2021/22 audit strategy

Council Materiality

Planning materiality
£7.78m

Materiality has been set at £7.78m, which represents 2% of the final 2020/21 gross expenditure on provision of services. The amount we consider material at the end of the audit may differ from our initial determination, and will be determined on receipt of the draft 2021/22 financial statements in February 2023. In addition we will also consider items which are 'qualitatively' material to the users of the financial statements. This includes the remuneration report disclosures subject to audit and the disclosure of losses & special payments. Errors identified in these areas will be individually assessed based on their impact to the users of the financial statements.

Performance materiality
£3.89m

Performance materiality has been set at £3.89m, which represents 50% of materiality. See section 04 for further details

25

Audit differences
£389,000

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £389,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit 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 Wokingham 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 the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Wokingham Borough Council Council's audit, we will discuss these with management as to the impact on the scale fee.

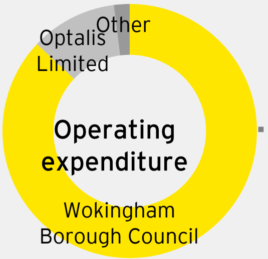
<u>Effects of climate-related matters on financial statements and Value for Money arrangements</u>
Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements 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.

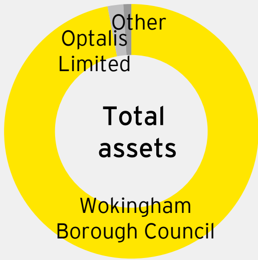
Overview of our 2021/22 audit strategy

Audit scope – for group audit

Through our on-site work we will cover the following percentages, by full scope and specific scope audits, of operating expenditure and total assets.



100% (2021/22) of the group's operating expenditure is covered by full and specific scope audits.



100% (2021/22) of the group's forecast total assets is covered by full and specific scope audits.

- We have specifically considered the scope of our audit in response to the identified risks above, which has impacted the work which we have instructed the component auditors to carry out and the extent of procedures performed

- For those entities 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
- Section 5 provides an overview of the nature of our planned involvement in the work to be performed by the component auditors
- We intend to take a substantive audit approach.

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the Council's arrangements against three reporting criteria:
    - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

02 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error *

(management override)

29

Financial statement impact

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

What is the risk?

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

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

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

What will we do?

We will undertake our standard procedures to address the fraud risk, which include:

- Identifying fraud risks during the planning stages;
- Inquiry of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud; and
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
    - Testing of journal entries and other adjustments in the preparation of the financial statements.
    - Reviewing accounting estimates for evidence of management bias.
    - Evaluating the business rationale for significant unusual transactions.

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, through inappropriate capitalisation of revenue expenditure and REFCUS *

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 PPE.

In 2020/21, the Council incurred additions to PPE of £110.4m (Group of £117.8m) with nil additions to IP and REFCUS of £4.3m.

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 consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

What will we do?

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

- 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;
- 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; and
- Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources.

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.

Valuation of Land & Buildings in PPE and IP

31

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.

PPE assets were valued at £510.8m, Council Dwellings at £234.8m and Investment Properties at £36.1m in the final 2020/21 audited financial statements.

What is the risk?

The value of land & buildings in PPE and in IP 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.

Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.

Misstatements were furthermore identified in property valuations during the previous two years' audits that required subsequent material adjustments to PPE and IP.

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 – such as 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.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
<u>Pension Liability Valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Berkshire County Council Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead (RBWM). The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled 357.17m. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and 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	We will: ▸ Liaise with the auditors of Berkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Wokingham Borough Council; ▸ Assess the work of the Pension Fund actuary 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; ▸ Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. We undertake our work after production of the Council's draft financial statements, when the year-end actuarial valuation of pension fund assets is available. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required. We note there have been significant delays in obtaining the assurances over the from the auditors of Berkshire Pension Fund in prior years. We expect these delays to continue to impact the audit for 2021/22. We are considering whether there are alternative approaches to gaining the appropriate assurance over the controls within the Pension Fund to reduce the impact of these delays.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
<u>Going Concern Disclosure</u> There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 during 2021/22, there is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.	We will: ▸ Challenge management's identification of events or conditions impacting going concern; ▸ Test management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias); ▸ Review the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow; ▸ Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties.
Accounting for Public Finance Initiative (PFI) The Council has one waste PFI arrangement with the Waste Recycling Group RE3 Limited. This is a joint PFI contract entered into with Reading and Bracknell Forest Councils in 2006/07 for the disposal of waste. The total outstanding value of the contract is estimated to be £101.5m as at 31 March 2021, 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 £37.8m over the next 10 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 £6.4m as at 31 March 2021, are recognised as Property, Plant and Equipment on the Council's Balance Sheet. The liability resulting from the contract, at the end of March 2020, was reported as £5.3m.	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. Work conducted 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 2021/22 audit, our work will include: ▸ a review of the assurances brought forward from prior years regarding the appropriateness of the PFI model; ▸ a review of the calculations behind the inputs in the accounting models; ▸ a review of the assumptions used in the Waste PFI accounting model; ▸ a review to ensure that the inputs into the accounting models are consistent with the PFI contract and agree to underlying records and the operational model; ▸ commenting on local adjustments, made by the Council, following any changes to the accounting model held by the host council, Reading Borough Council; and ▸ ensuring the accounting entries and disclosures made in the financial statements are consistent with the accounting model and the changes to the contract.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
Group Accounting IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required. The Council is therefore required to prepare group accounts which involves consolidating the financial statements of its following subsidiaries: ▸ Optalis Limited that provides Adult Social Care Services; ▸ WBC Holdings (WBCH) Limited that provides social and affordable housing. WBCH also includes Wokingham Housing Limited, Loddon Homes Limited and Berry Brook Homes Limited as its subsidiaries. These subsidiaries contain accounting entries and balances that can be considered material or significant to the group, and will be classified as either full or specific scope audits. In 2019/20, misstatements in group consolidation entries and workings, group cash flow calculations, and the misalignment of accounting policies between the group accounts and those of the subsidiaries required numerous corrections to the consolidated group accounts. This is consequently an area of potential complexity and judgment requiring regular review.	We will: ▸ Consider if these subsidiaries are individually material or significant to the group, and classify them either full or specific scope audits; ▸ Instruct the auditors of these subsidiaries (Hazlewoods Limited for Optalis Holdings Limited; and Haslers for WBCH Limited and its subsidiaries) to undertake a predetermined programme of work; ▸ Engage with the audit teams at Hazlewoods Limited and Haslers to discuss the work performed and their audit findings; ▸ Review the work performed by the auditors of the subsidiaries; ▸ Seek assurances from the auditors of these subsidiaries to ensure their 2021/22 financial statements do not contain material misstatements which may impact the consolidated group financial statements; ▸ Review consolidation entries and workings to ensure that financial performances and balances of the subsidiaries have been appropriately consolidated into the Authority's financial statements, especially in light of the changes to the group holdings for Optalis Limiited; and ▸ Review the Group Cash Flow Statement in the consolidated group financial statements and its workings to ensure appropriate disclosure in accordance with IAS 7.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
Cash and cash equivalents There are a number of imprest bank accounts within it Council's current portfolio included in Cash and Cash Equivalents of £131.6m as at 31 March 2021. In the prior year these imprest bank accounts contained a number of unreconciled differences between the Council's accounting records and statements from the relevant financial institutions. Although these differences were not material, there is a risk relating to appropriate record keeping and prevention of undetected irregularities in the absence of these reconciliations performed on a regular basis.	We will increase our focus on these imprest bank accounts to confirm that regular bank reconciliations are performed to ensure that there are no unexplained differences between the Council's accounting records and statements from the relevant financial institutions.

03 Value for Money Risks

Value for Money

Council 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.

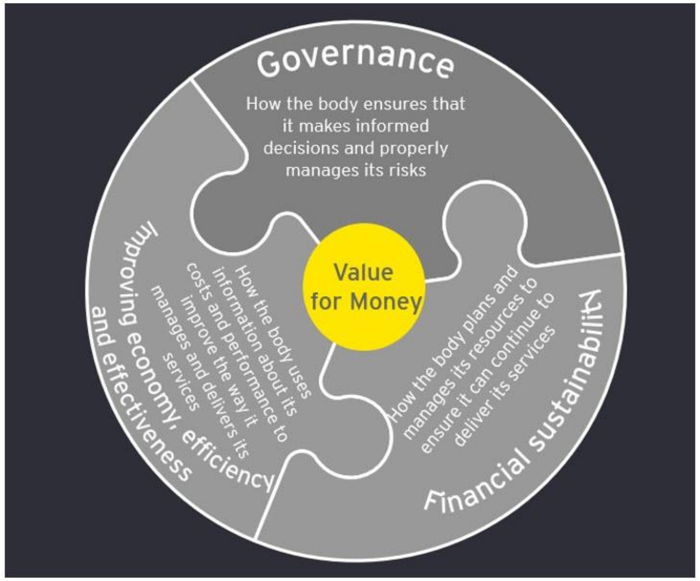
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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



Value for Money

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, Standards and Statutory 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

Our risk assessment is not yet complete. As part of completing our risk assessment we will consider:

- Our entity level controls and understanding the business assessment
- Council meeting minutes
- Our planning meetings with management
- Key financial and budget information
- Key performance reports
- Our cumulative knowledge and experience
- Other documentary evidence available on the Council's website

We have not identified a risk of significant weakness in the Council's arrangements that the Council did not have proper arrangements to secure economy, efficiency and effectiveness on its use of resources at that time in our work completed to date.

40

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for the Group financial statements for 2021/22 has been set at £8.48m. This represents 2% of the Group's 2021/22 gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

Group Gross expenditure on provision of services
£424.4m

Planning materiality
£8.48m

Performance materiality
£4.24m

Audit differences
£424,000

Council Gross expenditure on provision of services
£388.7m

Planning materiality
£7.78m

Performance materiality
£3.89m

Audit differences
£389,000

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 £4.24m which represents 50% of planning materiality. This has been reduced from 75% due to the volume and value of errors identified in the 2020/21 audit.

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 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 Standards and Statutory Accounts committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £4,000 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 this.

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

Change in Tolerable Error

We have reduced our tolerable error level from 75% to 50% compared to the prior year due to the high level of corrected and uncorrected misstatements identified during the 2020/21 audit.

We have considered the number of misstatements, their value individually and in aggregate, the nature of the misstatements, including whether they were factual, projected or judgmental misstatements, and whether they related to routine classes of transactions, non-routine transactions or to areas of estimation. We also considered the fact that these impact on more than one balance within the financial statements in determining the appropriate level to set tolerable error. We consider that, based on the outcome of the audit of 2020/21 there is a higher likelihood that misstatements may occur within the financial statements.

The impact of a lower tolerable error level on the audit is that our testing thresholds will be lower and our sample sizes will increase compared to prior years as a result.

In addition to the impact on the setting of the tolerable error level, the turnaround impact of the uncorrected misstatements identified in 2020/21 will also be included in our accumulative assessment of any corrected and uncorrected misstatements identified in 2021/22. This effectively lowers the threshold of the cumulative uncorrected misstatements we can accept as part of the audit.

We are aware the 2020/21 audit results have not yet been reported to the Audit Committee and we will provide an update on materiality and our planned risks to the Committee once we have reported these results.

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

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; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

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

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

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

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

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

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

Internal audit:
We will review internal audit plans and the results of their work. We use this to inform our ongoing assessment of risks likely to impact our responsibilities.

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. We provide scope details for each component within Appendix A.

2	A	Full scope audits
3	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
0	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.

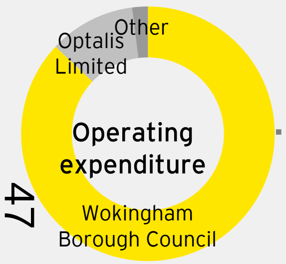
Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

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. We have not identified any group entities of this nature as part of Wokingham Borough Council Council.

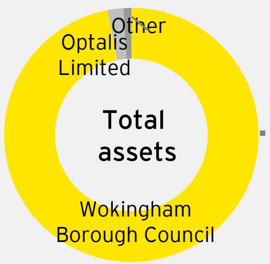
Scoping the group audit

Coverage of Surplus/Deficit and Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's operating expenditure and total assets.



100% (2021/22) of the group's operating expenditure is covered by full and specific scope audits.



100% (2021/22) of the group's forecast total assets is covered by full and specific 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 has been one significant change in the group structure since the prior year which does not impact on the work which we plan to perform, therefore the scope of the group audit has not changed. Optalis Limited was previously owned by Optalis (Holdings) Limited, which was jointly owned by Wokingham Borough Council and the Royal Borough of Windsor & Maidenhead and is now directly owned by the two Councils.

Details of other procedures

- Optalis Limited will be covered by full scope procedures
- WBC Holdings (WBCH) Limited and its subsidiaries Wokingham Housing Limited, Loddon Homes Limited and Berry Brook Homes Limited will be covered by specific scope procedures
- In order to respond to the significant risk identified in relation to valuation of land and buildings, we will review the valuation of the assets, rather than requesting the auditors of Loddon Homes Limited and Berry Brook Homes Limited to perform specified procedures on our behalf. We consider this to be the most efficient manner to obtain this assurance.

06 Audit team

Changes to the Audit Team

Under the PSAA terms of contract, Helen will reach the maximum length of time she is allowed to serve as your engagement partner at the conclusion of the 2021/22 audit. Alongside this, PSAA is responsible for appointing an auditor from 2023/24 to eligible bodies that have chosen to opt into its national auditor appointment arrangements and has recently announced the outcome from this exercise. To manage the transition from EY to the new audit firm, Janet Dawson is taking over as engagement partner for 2021/22. She will be supported by Helen to ensure a smooth transition. They will both be supported by Hannah Lill as your new engagement manager.

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: CBRE, Cushman and Wakefield, Colliers, Sanderson Weatherall – RICS Registered Valuers EY Real Estate Specialists
Pensions disclosure	Management specialist: Barnett Waddingham - Actuary EY Actuaries PWC Actuary commissioned by NAO

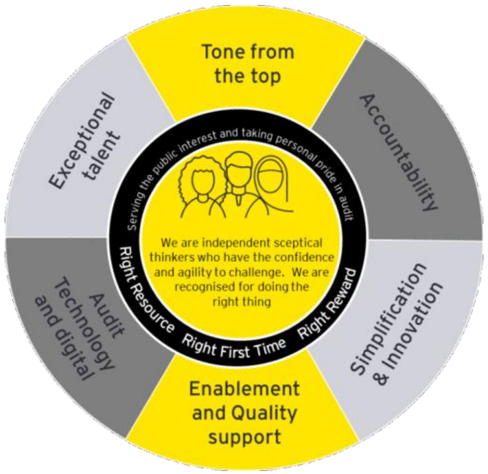
In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

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.

Developing the right Audit Culture

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



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

There are three elements underpinning our culture:

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

01 **Tone at the top**

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

02 **Exceptional talent**

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

03 **Accountability**

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

04 **Audit technology and digital**

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

05 **Simplification and innovation**

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

06 **Enablement and quality support**

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

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

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

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

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

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

Sir John Thompson
Chief Executive of the FRC

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

At the point of issuing this report we have not yet completed the audit of 2020/21; this has impacted our timetable for 2021/22. We have started our audit planning in January 2023, including the completion of system walkthroughs, and have sent group instructions to the component auditors and held an initial meeting with both firms. We have also booked time In February to select samples for the year end audit and time in April to review the work of the component auditors. Our current plan is to start the year end audit in July 2023 with the aim to complete by the end of November subject to receiving the assurances from the Pension Fund auditors.

We continue to liaise with the auditor of Berkshire Pension Fund and we are considering whether there are alternative procedures we can apply to gain the relevant assurances. We will keep the Audit Committee updated through our attendance at Committee meetings.

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

08 Independence

Introduction

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

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

Overall, we consider 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 Janet Dawson, 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 have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

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

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.

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

At the time of writing, the only non-audit work undertaken is the certification of the Council's Housing Benefit Claim. We are satisfied that no additional safeguards are required.

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.

Relationships, services and related threats and safeguards

Management threats

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

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

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

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

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022: EY UK 2022 Transparency Report | EY UK

09 Appendices

Appendix A

Fees

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

	Planned fee 2021/22	Final Fee 2020/21	Final Fee 2019/20
	£	£	£
PSAA Scale Fee	81,325	81,325	81,325
Scale Fee Rebasing: (Note 1)	73,318	73,318	
Total agreed fees:	**154,643**	**154,643**	
In-year fee variation due to additional work from reduced materiality, prior period adjustments, group accounts, going concern, pension valuations, Land & Buildings valuations within PPE & IP, the use of an expert in relation to these Land & Buildings valuations, and data preparation issues. (Note 2)	TBC	TBC	68,541 (Determination by PSAA) (Note 1)
PSAA expected additional minimal core fees (Note 3): ISA 540 accounting estimates	4,400	4,400	
PSAA expected additional minimal core fees (Note 2): ▸ VFM	10,000 to 19,000	10,000	
Total audit related fees	TBC	TBC	149,866
Housing Benefit claim certification fees	TBC	TBC	47,000

All fees exclude VAT

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

➢ Officers meeting the agreed timetable of deliverables;

➢ Our accounts opinion being unqualified and having nothing to report by exception for value for money;

➢ Appropriate quality of documentation is provided by the Council; and

➢ The Authority 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.

We have updated the table opposite to estimate the fee based on the work completed at the point of issuing this report. These figures could change, and need to be agreed with officers and the PSAA. Any further additional fees for 2021/22 will be communicated to officers following the completion of the audit.

Notes are on the following page.

Appendix A

Fees (continued)

Notes to the fee table

Note 1 - 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 assessed that the recurrent cost of additional requirements to carry out our audit should increase by £73,318. This was based on the amount of £58,655 we shared with the Council in 2019/20, uplifted for the 25% increase in PSAA hourly rates. We also submitted a further in-year fee variation of £56,528 as explained in note 2 below for the 2019/20 audit. PSAA has determined the total fee variation across both elements for 2019/20 as £68,541. We expect similar costs in nature in 2020/21 and subsequent years. However, PSAA has stated that this will need to be determined each year.

Note 2 - During 2020/21 we undertook additional work to address specific risks identified. However, as the audit is ongoing, we have not yet calculated an additional fee for discussion. For 2021/22 we expect similar additional work to be performed in addition to additional work required as a result of lowering our tolerable error level.

Note 3 - PSAA communicated a range of fees in August 2021 for the new requirements of the 2020 Code of Audit Practice, and the revised International Standard of Auditing 540 on Estimates. In the absence of further information, we have rolled these ranges forward for 2021/22.

59

Appendix B

Required communications with the Audit Committee

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 – February 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 Results Report – November 2023

Appendix B

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report – November 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 – November 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 – November 2023
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 ▸ 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 Committee responsibility	Audit Results Report – November 2023

Appendix B

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 – November 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 – February 2023 Audit Results Report – November 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 - November 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 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 Committee may be aware of	Audit Results Report - November 2023
Internal controls	► Significant deficiencies in internal controls identified during the audit	Audit Results Report - November 2023

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**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 – February 2023 Audit Results Report – November 2023
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – November 2023
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2023
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2023 Auditor's Annual Report – February 2024
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 – February 2023 Audit Results Report – November 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 – February 2023 Audit Results Report – November 2023 Auditor's Annual Report – February 2024

Appendix C

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 Committee of their responsibilities.

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council’s and the Group’s internal control. ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▶ Concluding on the appropriateness of management’s use of the going concern basis of accounting. ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council and the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▶ Maintaining auditor independence.

65

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.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

This page is intentionally left blank