



**East Hertfordshire  
District Council  
Provisional Audit planning  
report**

Year ended 31 March 2022

17 March 2023



Private and Confidential  
Audit and Governance Committee Members  
East Hertfordshire District Council  
Pegs Lane  
Hertford  
SG13 8EQ

17 March 2023

Dear Audit and Governance Committee Members

We are pleased to attach our Provisional Audit Planning Report which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Governance 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 Provisional Audit 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; we will inform the Audit and Governance Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee.

This report is intended solely for the information and use of the Audit and Governance 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 28 March 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson  
For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.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.psa.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 and Governance Committee and management of East Hertfordshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of East Hertfordshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of East Hertfordshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Overview of our 2021/22 audit strategy



## Overview of our 2021/22 audit strategy

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

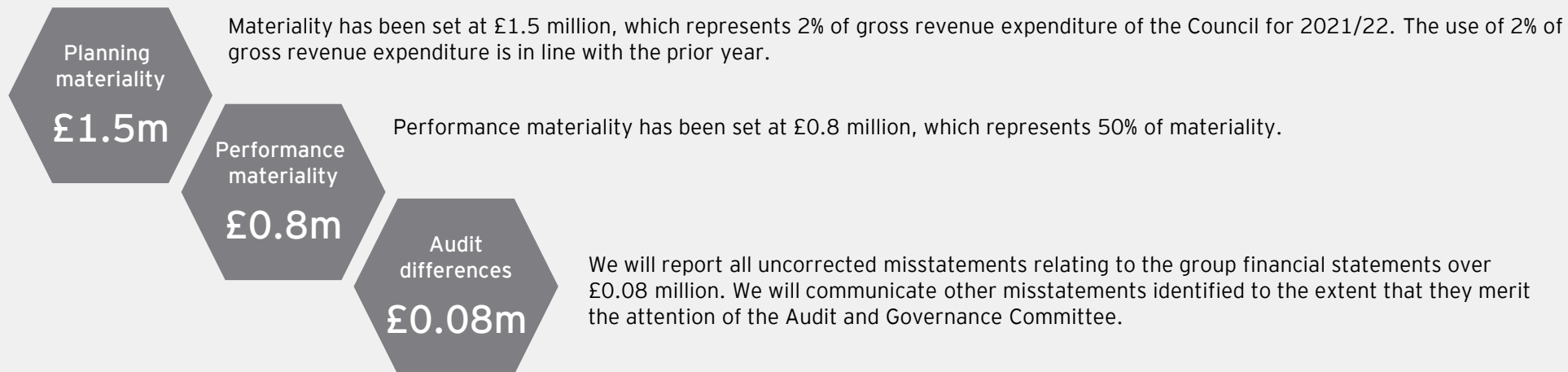
Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our fraud risk identified above, we have determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements. The Authority has a material additions of £24.9 million for 2021/22 and the increased pressure on the Authority's overall finances increases the fraud risk.
Valuation of property, plant and equipment and investment properties	Inherent risk	No change in risk or focus	<p>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.</p> <p>As of 31 March 2022, the Council had the following capital asset values valued at current cost (other land and buildings) and fair value (surplus assets and IP):</p> <ul style="list-style-type: none"> <li>▸ Land &amp; buildings - £71.147 million</li> <li>▸ Surplus assets - £2.416 million</li> <li>▸ Investment properties - £9.161 million</li> </ul>
Recognition of grant income associated with Covid-19 (includes sales fees and charges and other Covid-19 funding streams)	Inherent risk	No change in risk or focus	The Authority received a series of grants from the UK government during 2021/22 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus due to factors discussed in Section 02.

## Overview of our 2021/22 audit strategy

Audit risks and areas of focus (continued)			
Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the balance sheet.</p> <p>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. Small changes in assumptions when valuing the assets and liabilities can have a material impact on the financial statements.</p> <p>Pension liability balance as at 31 March 2022 was £28.511 million.</p>
Minimum revenue provision	Inherent risk	New risk (Inherent risk)	<p>Linked to the risk of 'misstatements due to fraud and error', we consider specific areas where management makes significant judgements that impact charges to the General Fund balance.</p> <p>Local authorities are required to charge Minimum Revenue Provision to the General Fund in each financial year if borrowing. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, but need to ensure the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance.</p> <p>In prior years, the Council is not required to provide MRP since the beginning balance of capital financing requirement (CFR) is negative. In 2021/22, the balance of CFR is positive, hence, the Council is required to make a provision.</p> <p>There is a risk that the Council may not been appropriately prudent in its calculation of MRP and/or not followed the relevant statutory guidance.</p>
Going concern disclosure	Area of focus	No change in risk or focus	<p>The Council is required to carry out a going concern assessment that is proportionate to the risks it faces. The unpredictability of the current economic environment and the volatility of the markets due to the ongoing impact of Covid as well as the Ukraine-Russia conflict also gives rise to a risk that the Council may not appropriately disclose the impact of these issues on its going concern assessment. The disclosure should be underpinned by the management's assessment based on the Council's forecast year end financial position for the going concern period of 12 months from the auditor's report date.</p>

## Overview of our 2021/22 audit strategy

### Materiality



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

- Remuneration disclosures - we will agree all disclosures back to source data. We will report any differences above £1k where they impact on the bandings use in the disclosure.
- Member allowances - we will agree Members allowances to the agreed and approved amounts and report any differences above £1k.
- Related party transactions - we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence. We will apply a materiality of £1k to this work.

# 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 East Hertfordshire District 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 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 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 value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of East Hertfordshire District Council's audit, we will discuss these with management as to the impact on the scale fee.

### Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.



# Overview of our 2021/22 audit strategy

## Value for money conclusion

We include details in Section 03 but in summary:

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

## Timeline

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

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22. This change was confirmed in The Accounts and Audit (Amendment) Regulations 2022 issued in June 2022.

The year end audit of 2021/22 started in January 2023 and we are aiming to complete the audit in time to report to the May 2023 Audit and Governance Committee. In Section 07 we include a provisional timeline for the audit.

## Audit team changes

No changes in the partner and manager of the audit.



# 02

## Audit risks



## Audit risks

# Our response to significant risks

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

Misstatements due to fraud or error	What is the risk?	What will we do?
	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p>	<p>We will undertake our standard procedures to address fraud risk, which include:</p> <ul style="list-style-type: none"><li>➤ Identifying fraud risks during the planning stages.</li><li>➤ Inquiring of management about risks of fraud and the controls put in place to address those risks.</li><li>➤ Understanding the oversight given by those charged with governance of management's processes over fraud.</li><li>➤ Considering the effectiveness of management's controls designed to address the risk of fraud.</li><li>➤ Determining an appropriate strategy to address those identified risks of fraud.</li><li>➤ Performing mandatory procedures regardless of specifically identified fraud risks, including;<ul style="list-style-type: none"><li>▶ testing of journal entries and other adjustments in the preparation of the financial statements;</li><li>▶ reviewing accounting estimates for evidence of management bias; and</li><li>▶ evaluating the business rationale for significant unusual transactions;</li></ul></li></ul>

## Our response to significant risks (continued)

### Incorrect capitalisation of revenue expenditure

#### Financial statement impact

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

Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.

Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment additions in the financial statements.

#### What is the risk?

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

We have identified an opportunity and incentive to incorrectly capitalise revenue expenditure to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of the Council's annual capital programme, which is significantly higher than our materiality level. 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?

To address this risk, we will:

- Obtain a general ledger breakdown of capital additions in the year, reconcile this to the Fixed Assets Register and review the general ledger descriptions to identify whether there are any potential transactional items that could be revenue in nature;
- Sample test additions to property, plant and equipment at a lower testing threshold to ensure they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. We review the sample selected against the definition of capital expenditure in IAS 16; and
- As part of our journals testing strategy, we will review unusual journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b>Valuation or property, plant and equipment and investment properties</b></p> <p>The fair 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.</p> <p>As of 31 March 2022, the Council had the following capital asset values valued at current cost (other land and buildings) and fair value (surplus assets and IP):</p> <ul style="list-style-type: none"><li>▸ Land &amp; buildings - £71.147 million</li><li>▸ Surplus assets - £2.416 million</li><li>▸ Investment properties - £9.161 million</li></ul>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"><li>➤ Consider the work performed by the Council's external and internal valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;</li><li>➤ Use our own valuation experts to review the methodology and assumptions used by the valuer;</li><li>➤ Assesses the accuracy of the classification of assets and the valuation basis that is assigned as a result;</li><li>➤ Identify and corroborate any material increases or impairments that arise during the year;</li><li>➤ Review the annual cycle of valuations to ensure that assets have been valued annually;</li><li>➤ Select a sample of PPE and IP assets and test the inputs, assumptions and methodologies employed by the Council's valuers and consider the reasonableness of the estimation techniques employed. We will send assets with higher degree of complexity in valuation for review by our valuation experts;</li><li>➤ Consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;</li><li>➤ Test accounting entries, ensuring these have been correctly processed in the financial statements; and</li><li>➤ Review appropriateness of the relevant accounting policies and disclosures.</li></ul>

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b>Recognition of grant income associated with Covid-19 (includes sales fees and charges and other Covid-19 funding streams)</b></p> <p>The Authority received a series of grants from the UK government during 2021/22 in support for the pandemic crisis management. The amount of grant recognised as income in the current year is £5.8m. We identified the accounting treatment of those grants as an area of focus due to factors discussed in Section 02.</p>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"><li>➤ Reviewing the Authority's decision for new grant or funding arrangements whether it is acting as principal or agent;</li><li>➤ Sample testing government grant income to ensure that grants have been correctly classified as specific or non-specific in nature;</li><li>➤ Sample testing government grant income to ensure that grants have been correctly classified in the financial statements based on any restrictions imposed by the funding body;</li><li>➤ Checking the Authority has adequately disclosed grant income received in the year, under both principal and agent arrangements; and</li><li>➤ Sample testing the expenditure financed by the grants to check if these are in line with the conditions of the grant, if any.</li></ul>
<p><b>Pension liability valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the balance sheet.</p> <p>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. Small changes in assumptions when valuing the assets and liabilities can have a material impact on the financial statements.</p> <p>Pension liability balance as at 31 March 2022 was £28.511 million.</p>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"><li>➤ Liaise with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;</li><li>➤ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and consider reviews of this by the EY actuarial team;</li><li>➤ Engage our internal EY pensions team to calculate an estimate of the Council's pension liability by running their own 'actuarial model' and comparing this to that produced by the Council's actuary;</li><li>➤ Consider the results of the latest triennial valuation (as at March 2022) and assess whether this has any impact on the net liability reported in the Council's accounts; and</li><li>➤ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li></ul>

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p><b>Minimum revenue provision</b></p> <p>Linked to the risk of 'misstatements due to fraud and error', we consider specific areas where management makes significant judgements that impact charges to the General Fund balance.</p> <p>Local authorities are required to charge a 'Minimum Revenue Provision' (MRP) to the General Fund in each financial year related to borrowing. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, but need to ensure the calculation is prudent. In calculating a prudent provision, local authorities are required to have regard to statutory guidance.</p> <p>In prior years, the Council has not been required to provide a MRP, since the opening balance of capital financing requirement (CFR) is negative. In 2021/22, the balance of CFR is positive, hence, the Council is required to make a provision.</p> <p>There is a risk that the Council may not been appropriately prudent in its calculation of MRP and/or not followed the relevant statutory guidance.</p>	<p>We will perform the following:</p> <ul style="list-style-type: none"><li>➤ Checking that the calculation of the Capital Financing Requirement is appropriate and consistent with other notes in the financial statements;</li><li>➤ Checking the appropriateness of the Council's MRP policy; and</li><li>➤ Checking whether MRP has been appropriately calculated in accordance with the revised statutory guidance.</li></ul>

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### Going concern disclosure

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. The unpredictability of the current economic environment and the volatility of the market due to the ongoing impact of Covid as well as the Ukraine-Russia conflict are issues we would expect this assessment to consider, particularly in terms of the impact on the Council's day to day finances, its annual budget, cashflow and medium term financial strategy,

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.

The disclosure should be based on the Council's actual year end financial position for the current year as well as projections for the going concern period of 12 months from the auditor's report date.

#### What will we do?

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Authority's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Authority's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.





03

## Value for Money Risks





# Value for Money

## Council's responsibilities for value for money

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

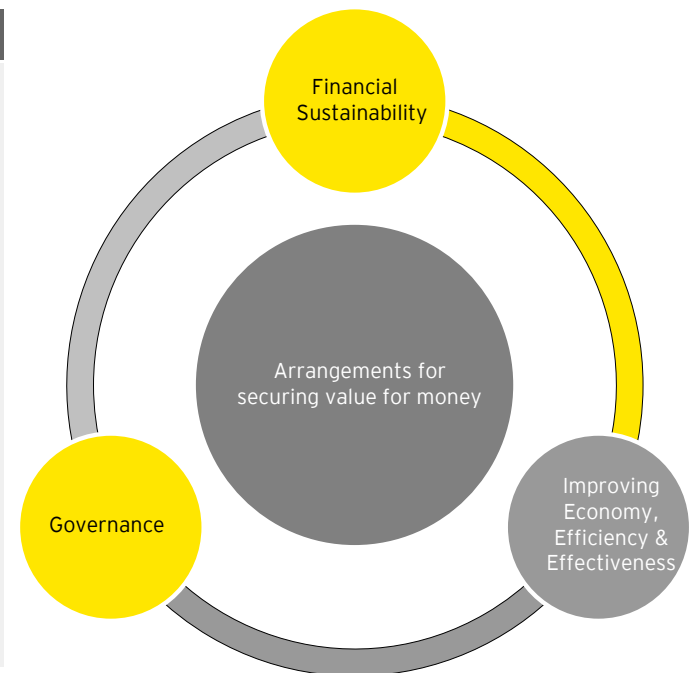
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

## Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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





## Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

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

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

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

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

We should also be informed by a consideration of:

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



# Value for Money

## Responding to identified risks of significant weakness

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

## Reporting on VFM

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

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

## Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning. However, one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability.

The medium term financial strategy for 2023/24 to 2027/28 shows a forecasted transfer from earmarked reserves of £818k in 2023/24, £3.466 million in 2024/25 and £460k in 2025/26.

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



04

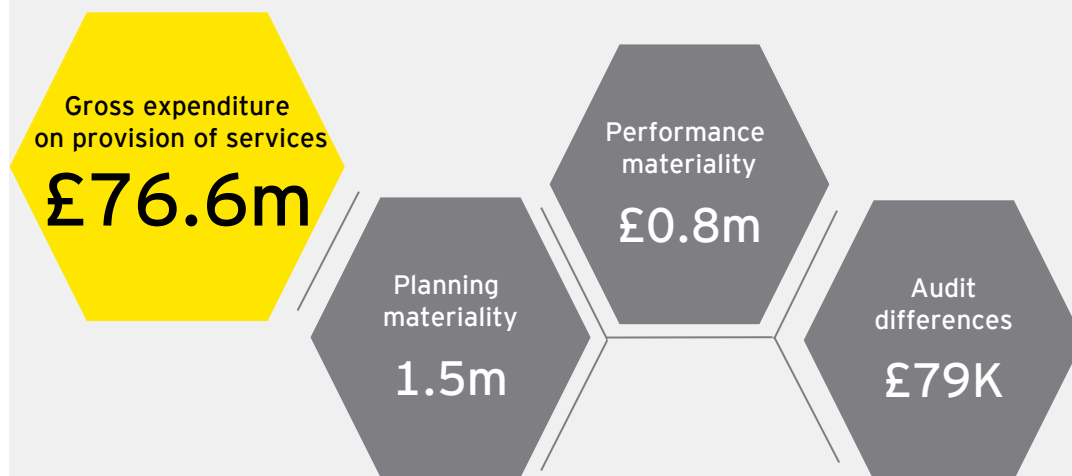
# Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2021/22 has been set at £1.5 million. This represents 2% of the Council's current year gross revenue expenditure on provision of services. We will reassess materiality throughout the audit process. We consider that the focus from interested parties will be on how income is spent and therefore our judgement is that gross expenditure is considered to be the most appropriate measurement basis for materiality. We have provided supplemental information about audit materiality in Appendix C.



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

### Key definitions

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

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.8 million which represents 50% of planning materiality. We decreased the percentage of performance materiality due to the number of errors noted in the 2020/21 audit.

**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 and Governance Committee, or are important from a qualitative perspective.

# Materiality

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

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

- ▶ Remuneration disclosures - we will agree all disclosures back to source data. We will report any differences above £1k where they impact on the bandings use in the disclosure.
- ▶ Member allowances - we will agree Members allowances to the agreed and approved amounts and report any differences above £1k.
- ▶ Related party transactions - we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence. We will apply a materiality of £1k to this work



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## 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 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 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 [delete if not applicable]

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

Analytics:

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

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

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

Internal audit:

We will 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 plan, where they raise issues that could have an impact on the financial statements.

## Scoping the group audit

### Group scoping

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

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

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

### 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 E.

1	A	Full scope audits - the Council
1	B	Specific scope audits - Millstream

### 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. Millstream Property Investments Limited which is consolidated within the group accounts is a specific scope audit.

We will our review and testing on the specific balances which are considered to have a material impact on the group accounts or have an identified risk attached to them.

### Key changes in scope from last year

No changes in scope from prior year



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Audit team



# Audit team

## Audit team structure:

### EY Team

Debbie will continue as the engagement lead for 2021/22 which will be her second year of working with the Authority.

Rachel will also continue as the manager of the audit for 2021/22. Rachel has experience managing audits of councils within the Hertfordshire and Essex area.

The engagement is led by Daniel Pinner and Erwin Pagtalunan as seniors for 2021/22.

Debbie Hanson  
Lead Audit Partner

Rachel Merez  
Manager

Daniel Pinner  
Erwin Pagtalunan  
Seniors

### Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2021/22 audit.

We will continue to keep our audit approach under review to streamline it where possible.

EY Real Estates  
(EYRE)

PwC (consulting  
actuary) and EY  
Pensions

\* Key Audit Partner

## Audit team

### 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
Property, plant and equipment, assets held for sale and investment Properties	EY Real Estate (EY specialist) The Council's own internal valuer (Management specialist)
Pensions disclosure	EY pensions advisory, PwC (Consulting Actuary) (EY specialist) Hymans Robertson - Actuary to the Hertfordshire Pension Fund (Management specialist)
NNDR Appeals Provision	Analyse Local (Management specialist)
Financial Assets and Liabilities	Link Assets Services (Management specialist)

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.

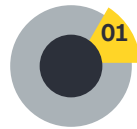


Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

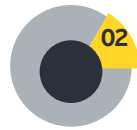
1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
  - ▶ **Right resources** – We team with competent people, investing in audit technology, 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.



#### 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



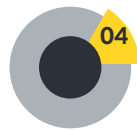
#### Exceptional talent

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



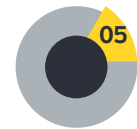
#### Accountability

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



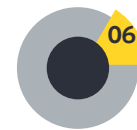
#### Audit technology and digital

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



#### 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



#### 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



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## Audit timeline







# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a proposed timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22. From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit and Governance Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes.	January	Audit and Governance Committee	
Walkthrough of key systems and processes	February		
Year end audit	March	Audit and Governance Committee	Audit Planning Report
Year end audit	April		
Year end audit	May	Audit and Governance Committee	Audit Results Report
Audit completion procedures	June	Audit and Governance Committee	Annual Auditor's Report including commentary on VFM





08

Independence



# Introduction

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

## Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ 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</li> <li>▶ 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;</li> <li>▶ 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</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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 Debbie Hanson, 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 permissible non-audit services and where we do so, we will comply with the policies that you have approved, and the Financial Reporting Council's Ethical Standards, and the National Audit Office's Auditor Guidance Note 01. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, our non-audit work on behalf of the council is within this ratio. 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.

## 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

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### **EY Transparency Report 2021**

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

[EY UK 2022 Transparency Report | EY UK](#)



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## 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.

Description	Proposed Fee 2021/22 £	Scale Fee 2021/22 £	Final Proposed Fee 2020/21 £
Total Scale Fee - Code work (Note 1)	40,295	40,295	40,295
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 2)	33,686		26,949
Additional fee to address in-year risks as noted in this report (Note 3)	TBC		31,591
<b>Total indicative audit fees</b>	<b>TBC</b>	<b>40,295</b>	<b>98,835</b>
Housing benefits certification work	TBC		11,000
<b>Total audit fees</b>	<b>TBC</b>	<b>40,295</b>	<b>109,835</b>

All fees exclude VAT

#### Note 1:

The scale fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Council; 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.

#### Note 2:

We do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. As a result, we have proposed an increase in the scale fee from of £33,686 to PSAA. This is yet to be determined by PSAA.

**Note 3:** In addition to the above, we propose additional fees where we identify specific risks which require additional audit work. These fees are again subject to determination by PSAA. Now we have concluded the 2020/21 audit we will submit our additional fee request to PSAA. We will determine what additional fees may be required in relation to 2021/22 once the audit is complete. We will discuss with management the breakdown of the additional fee requested before submission to PSAA. PSAA will determine the final fee.



## Appendix B

# Required communications with the Audit Committee

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







Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Governance 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	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Plan - March 2023
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Audit results report - May 2023</p> <p>Auditor's Annual Report - June 2023</p>







## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report - May 2023
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - May 2023
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements</li> </ul>	Audit results report - May 2023
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility</li> </ul>	Audit results report - May 2023




## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report - May 2023
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan - March 2023</p> <p>Audit results report - May 2023</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report - May 2023
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of</li> </ul>	Audit results report - May 2023

## Appendix B

# Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - May 2023
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - May 2023
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - May 2023
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - May 2023 Auditor's Annual Report - June 2023
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - March 2023 Audit results report - May 2023
Value for Money	<ul style="list-style-type: none"> <li>▶ Risks of significant weakness identified in planning work</li> <li>▶ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.</li> </ul>	Audit Plan - March 2023 Audit results report - May 2023 Auditor's Annual Report - June 2023

## Additional audit information

### Objective of our audit

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

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

### Other required procedures during the course of the audit

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

#### Our responsibilities required by auditing standards

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

## Appendix C

# Additional audit information (continued)

### Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	<ul style="list-style-type: none"><li>▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.</li><li>▶ Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period</li></ul>
Other procedures	<ul style="list-style-type: none"><li>▶ 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</li></ul>

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.

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