# Derby City Council
# Audit planning report

Year ended 31 March 2022

March 2022

Building a better working world

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Derby City Council
Council House
Corporation Street
Derby
DE1 2FS

March 2023

Dear Audit Committee Members,

We are pleased to attach our Audit Planning Report 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 Derby City Council, and outlines our planned audit strategy in response to those risks. Our detailed audit planning remains underway. If there are any amendments following the completion of these procedures we will highlight these to the Committee separately.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 22nd March 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hassan Rohimun

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.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 Derby City 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 Derby City 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 Derby City 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. |
| Risk of fraud in revenue and expenditure recognition: Overstatement of revenue | Fraud risk | No change in risk or focus | Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grants, where management is able to apply more judgement. Specifically, our risk is focused on the occurrence assertion of fees, charges and other service income. We have rebutted the risk of revenue recognition in relation to grant and taxation receipts where the risk is considered to be low based on the inherent nature of these items. |
| Risk of fraud in expenditure recognition<br>▸ Inappropriate capitalisation of expenditure<br>▸ Understatement of Other service expenses | Fraud risk | Change in focus for Inappropriate capitalisation of expenditure | As set out above, 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 that this risk is more prevalent in the following areas;<br>▸ The capitalisation of expenditure that should be accounted for in the Comprehensive Income and Expenditure Statement (CIES); and<br>▸ Understatement of other service expenses to manage the financial position year on year. |

# Overview of our 2021/22 audit strategy

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**Audit risks and areas of focus**

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|---|---|---|
| Valuation of property, plant and equipment (PPE) under Fair Value and Existing Use Valuation | Significant risk | Change in focus | The Council's PPE account forms a large proportion of the Council's assets. Assets valued using an Existing Use Valuation (EUV) and/or Fair Value (FV) methodologies are based on a number of assumptions and judgements made by the Council's valuation expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements. |
| Incorrect recognition of grants including COVID-19 related grants | Inherent Risk | Decrease in risk or focus | The risks includes:<br>• Incorrect assessment of the Council as either principal or agent which affects income recognition.<br>• Incorrect accounting of grants received in the prior year but where income recognition was deferred. There is a risk that the subsequent recognition to income will not appropriately reflect the underlying terms and conditions of the grant agreement. |
| Valuation of property, plant and equipment (PPE) under DRC | Inherent Risk | No change in risk or focus | We do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC) due to the more formulaic nature of the valuation and because there is less reliance on market values. However, as there is still an element of judgment and estimation involved we do consider there to be a higher inherent risk of errors that may have a material impact on the financial statements. |

# Overview of our 2021/22 audit strategy

**The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the** Audit 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 |
|---|---|---|---|
| Infrastructure Assets | Inherent Risk | New Risk | An issue was raised via the NAO's Local Government Technical Group that local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned. DLUHC has since issued a statutory override relating to the accounting for infrastructure assets and CIPFA has amended the Code to simplify disclosures required.<br><br>Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it is challenging to identify the cost and accumulated depreciation balances that need to be derecognised. |
| Valuation of assets and liabilities in the Local Government Pension Scheme (LGPS) | Inherent Risk | No change in risk or focus | The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates which increases the risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The IAS19 pension fund valuations are subject to specialist actuarial assessment and a small movement in the assumptions used for the valuation could have a material impact on the value in the Council's financial statements. |
| Accounting for litigation | Inherent Risk | No change in risk or focus | There is a risk that litigations and claims are not accounted for in accordance with the prevailing laws and accounting standards including transactions relating to the waste disposal plant at Sinfin. |

# Overview of our 2021/22 audit strategy

## Materiality

Planning materiality
£10m

Materiality has been set at £9,999,808 for the council (£9,977,716 for the group) which represents 1.4% of the current year's gross expenditure on provision of services from the draft statement of accounts.

Performance materiality
£7.5m

Performance materiality has been set at £7,499,856 for the council (£7,483,287 for the group), which represents 75% of materiality.

Audit differences
£0.5m

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 £498,886. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Governance Committee.

Since Group materiality is lower than council materiality , we will be using group materiality for our testing and reporting purpose.

For details, refer to Section 4.

## 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.

In Section 7 we include a provisional timeline for the audit.

## Audit team

**Partner – Hassan Rohimun**
Hassan will be charged with the responsibility of signing the audit opinion of the Council and the group and sets the overall strategy and risk assessment for delivering the audit.

**Senior Manager – Senior Manager**
Sanchita has taken up the role of Audit Manager for the 2021/22 audit. Sanchita will be charged with the responsibility of managing the audit team to fulfil their responsibilities.

# 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 Derby City 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 Derby City 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

## Audit scope – for group audit

We have specifically considered the scope of our audit of the Group financial statements and set out our planned approach in Section 5 of this report.

The Council has one wholly owned subsidiary "Derby Homes Limited". The accounts of Derby Homes Ltd, a wholly owned subsidiary, have been combined with the Council's single entity accounts on a line by line basis. The component has been assessed as full scope based on risk assessment.

We intend to take a full substantive audit approach at Group level. This is consistent with the audit approach in the prior year.

## Value for money conclusion

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

# 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*

### (Fraud risk)

#### Financial statement impact

Misstatements that occur in relation to the risk of fraud or error could affect both the Comprehensive income and expenditure statement and the balance sheet.

#### 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.

#### What will we do?

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

- Identifying fraud risks during the planning stages;
- Making inquiries of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Considering the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud; and
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements:
  - Reviewing and testing any changes to the methodologies of existing and new accounting estimates, for evidence of bias.
  - Undertaking risk based testing of journals from the accounting period that are identified from the application of specified audit risk criteria.
  - Considering and evaluating the existence and nature and business rationale of significant unusual transactions.

# Our response to significant risks (continued)

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

## Risk of fraud in revenue recognition: overstatement of fees, charges and other service income*

**(Fraud risk)**

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue recognition could affect the income accounts associated with fees, charges and other service income. These accounts had the following balances in the draft financial statements:

- Fees, charges and other service income in the draft Statement of Accounts 21/22 - £163m

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.

We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grants, where management is able to apply more judgement.

Specifically, our risk is focused on the occurrence assertion of fees, charges and other service income, where management may have recorded and disclosed transactions which did not actually happen in the current financial year and did not relate to the Council resulting to an overstatement.

We have rebutted the risk of revenue recognition in relation to grant and taxation receipts where the risk is considered to be low based on the inherent nature of the items.

### What will we do?

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

- Performing overall analytical review procedures to identify any unusual movements or trends for further investigation;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually move income between financial years;
- Undertaking a monthly trend analysis in 2021/22 using our data analytics tools to identify any unusual movements in balances during the year for further analysis and testing;
- Selecting a sample of income transactions posted in the period post year-end to confirm if this has been recorded in the correct period; and
- Selecting a sample of receivables posted just prior to year-end to confirm if this has been recorded in the correct period.

# Our response to significant risks (continued)

**Risk of fraud in expenditure recognition ***

- **Inappropriate capitalisation of expenditure**
- **Understatement of other operating expenditure**

**(Fraud risk)**

### Financial statement impact

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

We consider the risk applies to capitalisation of expenditure and could result in a misstatement of cost of services reported in the CIES and PPE balances, and, through the over-capitalisation of expenditure (understatement of CIES expenditure) to manage the financial position year on year.

These accounts had the following balances in the draft financial statements:

Other service expenses: £403m

PPE Additions – Assets under construction: £48m

### What is the risk?

As set out above, 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 that this risk is more prevalent in the following areas;

- Over the medium term we consider this is likely to occur through the capitalisation of expenditure that should be accounted for in the CIES given the extent of the Council's capital programme; and
- Understatement of expenditure to manage the financial position year on year.

We consider this to impact on the valuation of PPE balances as well as on the completeness of expenditure/creditor balances.

We consider the risk to be relevant to other service expenses, where management is able to apply more judgement. Specifically, our risk is focused on the completeness assertion, where expenditure is understated to manage the financial position year on year.

### What will we do?

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

- Understanding and challenging management on any accounting estimates on expenditure recognition for evidence of bias;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that reduce expenditure by moving to the PPE balance sheet general ledger codes leading up to the balance sheet date;
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any expenditure items that have been inappropriately capitalised;
- Performing overall analytical review procedures to identify any unusual movements or trends for further investigation, including comparing year-on-year balances within accruals;
- Selecting a sample of expense transactions posted in the period post year-end to confirm if this has been recorded in the correct period; and
- Performing unrecorded liabilities and payables cut off testing to identify payments occurring just after the year-end, which will address the completeness of the expenditure and creditor balances.

# Audit risks

## Our response to significant risks (continued)

**Valuation of property, plant and equipment (PPE) under FV and EUV**

### Financial statement impact

Misstatements that occur in relation to the valuation of Property, Plant & Equipment could affect the Balance Sheet.

The total net book value is £563m for Council dwellings, £345m for Other Land & Buildings and £14m for surplus Assets in the draft Statement of Accounts 21/22

### What is the risk?

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

The Council's PPE account for the biggest proportion of the Council's assets. The assets valued using an Existing Use Valuation (EUV) and/or Fair Value (FV) methodology are subject to a number of assumptions and judgements by the management's expert. There is a risk that the use of inappropriate assumptions or methodologies may have a material impact on the financial statements, especially given high uncertainty in markets at present.

### What will we do?

- Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. 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 and whether asset have been assessed for impairment and are materially correct;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Engage internal EY valuation specialists to review the approach of the Council valuer, consider assumptions underpinning the valuation and to provide expected valuations for a sample of assets valued during the year;
- Test accounting entries have been correctly processed in the financial statements;
- Review the classification of assets and ensure the correct valuation methodology has been applied; and
- Consider external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the area where relevant. Specifically we will consider if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued.

# Audit risks

## Our response to inherent risks

| What is the risk/area of focus? | What will we do? |
|---|---|
| **Incorrect recognition of grants including COVID-19 related grants**<br><br>**The risks includes:**<br>• **Incorrect assessment of the Council as either principal or agent which affects income recognition.**<br>• **Incorrect accounting of grants received in the prior year but where income recognition was deferred. There is a risk that the subsequent recognition to income will not appropriately reflect the underlying terms and conditions of the grant agreement.** | In order to address this risk we will carry out a range of procedures including:<br>▶ Obtaining an understanding of the types of grants including COVID-19 grants received in year and management's justification of the Council's role as principal or agent;<br>▶ Reviewing and challenging the Council's assessment as principal or agent and its accounting treatment for grants by reading the terms and conditions stipulated in the grant agreement;<br>▶ Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually move income into the next year;<br>▶ Sample testing the grants received and recognized in year by the Council to ensure the accounting treatment and recognition applied is appropriate based on our review and assessment above; and<br>▶ Sample testing the grants deferred in prior year and recognised in current year by the Council to ensure the accounting treatment and recognition applied to grant income is appropriate and in line with any associated conditions. |
| **Valuation of property, plant and equipment (PPE) under DRC**<br><br>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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.<br>Given their more formulaic nature and less reliance on market data, we do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC). However, as there is still an element of judgment and estimation involved, we do consider there to be a higher inherent risk. | In order to address this risk we will carry out a range of procedures including:<br>▶ Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;<br>▶ Sampling testing asset valuations, utilising the support from EY valuation specialists where it is considered appropriate to do so, considering assumptions underpinning the valuation and to provide expected valuations of assets selected;<br>▶ Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by CIPFA. Also considering if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;<br>▶ Reviewing assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated and whether asset categories held at cost have been assessed for impairment and are materially correct;<br>▶ Testing accounting entries have been correctly processed in the financial statements;<br>▶ Reviewing the classification of assets and ensure the correct valuation methodology has been applied; and,<br>▶ Testing the accounting entries including the calculation of the gain or loss on revaluation to confirm that the adjustments have been correctly processed in the financial statements. |

# Audit risks

## Our response to inherent risks (continued)

| What is the risk/area of focus? | What will we do? |
| --- | --- |
| **Infrastructure Assets**<br><br>Infrastructure assets are valued at historic cost, most specifically the cost incurred when replacing old or constructing new infrastructure assets. Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, Councils often capitalise schemes of expenditure and depreciate over an estimated economic life. Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life.<br><br>An issue was raised via the NAO's Local Government Technical Group that local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned.<br><br>Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it is challenging to identify the cost and accumulated depreciation balances that need to be derecognised.<br><br>CIPFA have issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets.<br><br>DLUHC have issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022). The SI relates to a financial year beginning on or before 1st April 2024 and in respect of which a certificate has not been entered under section 20(2)(a) of that Act. The SI allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. The Statutory Instrument became active on 25 December 2022. | In order to address this risk we will carry out a range of procedures including:<br>▸ Performing a walkthrough to understand and evaluate the key processes in place to account for infrastructure assets, including; capturing accurate information, componentisation, monitoring of, and the treatment in relation to, subsequent expenditure, impairment and disposal or de-recognition;<br>▸ Testing the reasonableness of the valuation of the infrastructure assets;<br>▸ Testing the existence of assets;<br>▸ Assessing the extent of information deficit that exists to create materially accurate disclosures ; and<br>▸ Assess the extent of records held by the Council to support its approach to reporting infrastructure in light of the Statutory Instrument and Code adaptation by CIPFA. |

# Audit risks

## Our response to inherent risks (continued)

| What is the risk/area of focus? | What will we do? |
|---|---|
| **Valuation of assets and liabilities in the Local Government Pension Scheme (LGPS)**<br><br>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 Derbyshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2022 this totalled £369m.<br><br>The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates which increases the risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The IAS19 pension fund valuations are subject to specialist actuarial assessment and a small movement in the assumptions used for the valuation could have a material impact on the value in the Council's financial statements. | In order to address this risk we will:<br>▸ Liaise with the auditors of Derbyshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Derby City Council;<br>▸ 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;<br>▸ Consider the reasonableness of the actuary's estimate of the asset returns applied in rolling forward the asset position from the prior year; and<br>▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. |
| **Accounting for litigation**<br><br>Derby City Council and Derbyshire County Council contracted with Resource Recovery Solutions Derbyshire (RRS) to manage the Sinfin Waste Plant. The waste treatment centre was due to open in Sinfin in 2017, but RRS has been unable to resolve ongoing issues that would allow the facility to pass the certified performance tests required to bring it into full service.<br><br>In April 2019, the two councils issued a formal notice to the project's funders to take action under the contract to progress the project. The agreement with RRS to manage the Sinfin Waste Plant was cancelled in August 2019 when the banks funding the project issued a legal notice. There is a risk that any associated transactions are not accurately accounted for in the financial statements. | Our approach will focus on:<br>▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to Waste Plant.<br>▸ Consider any possible impairments of this asset |

# Other matters

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

| Area of audit work | What will we do? |
|---|---|
| **PFI Financing**<br><br>**The Council** has a number of assets held under PFI arrangements. Four of these are recorded on the Council's balance sheet, one is not. Such arrangements are complex and substantial in value. | Our approach will focus on:<br>▸ Assessing the validity of the accounting model and ensuring the outputs from the model are correctly reflected in the financial statements and relevant disclosures have been made. |
| **Going concern compliance with ISA 570**<br>This auditing standard was revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard was effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council was the audit of the 2020/21 financial statements.<br>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 states that organisations can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.<br>The standard increased the work we are required to perform when assessing whether the Council are a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. | In order to address this, we will carry out a range of procedures as required by the standard:<br>▸ Auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;<br>▸ Greater work for us to challenge management's assessment of going concern, including the cashflow forecast covering the foreseeable future and its impact on liquidity;<br>▸ Improved transparency with a new reporting requirement to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;<br>▸ A stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and<br>▸ Necessary consideration regarding the appropriateness of financial statement disclosures around going concern. |

# 03 Value for Money Risks

# Value for Money

## Councils 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.

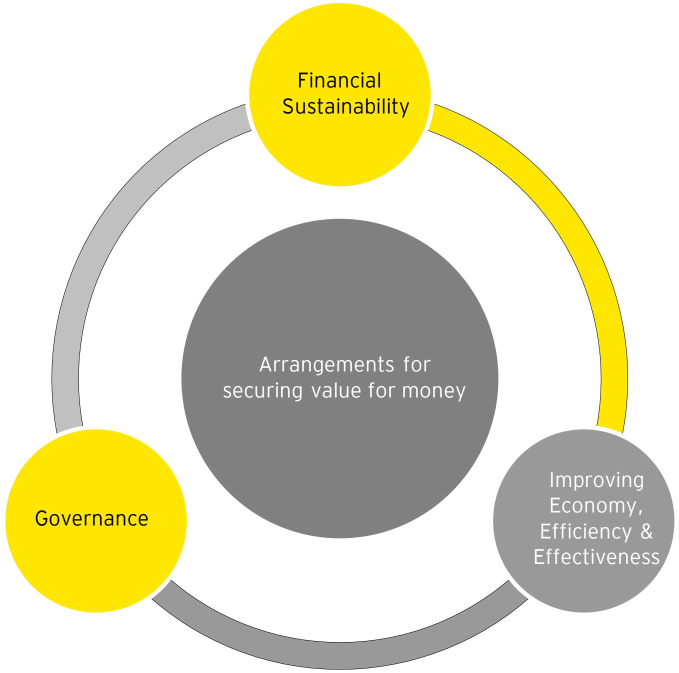
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Whilst we have yet to complete our VFM planning, based on procedures undertaken to date, we have identified the following risk of a significant weakness:

- The adequacy of the arrangement in place to ensure the Council is taking informed decision in respect of the waste disposal plant at Sinfin.

We will undertake additional procedures to review the information being provided to the Cabinet and the Council.

## 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, our risk assessment will carefully consider the arrangements:

- That the Council has in place in relation to financial sustainability – including inflationary pressures and rising cost of living and other general funding pressures on the medium term financial planning.

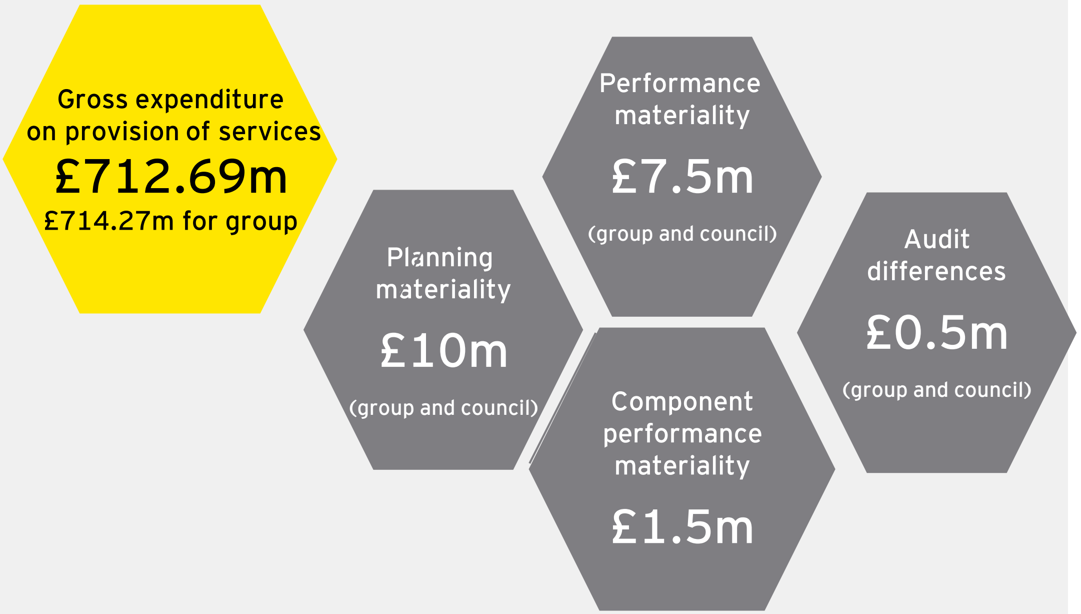
We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.

# 04 Audit materiality

# Materiality

## Materiality

For planning purposes, the Council and the Group materiality for 2021/22 has been set at £10m (specifically £9,978K for the Group and £9,999K for the Council). This represents 1.4% of the Council and the Group's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities. We have provided supplemental information about audit materiality in Appendix C.




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 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 £10m (specifically £9,978K for the group and £9,999K for the council) which represents 75% of planning materiality. When determining the % to be used as performance materiality, we take into account considerations such as our expectation about misstatements, the likelihood and effects of misstatements, internal control environment, changes in circumstances and the result of our client and engagement acceptance and continuance process.

**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. The threshold for misstatements used for component reporting is £499K. 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.

**Specific materiality** – we will consider specific materiality in relation to senior officer remuneration, member's allowances, exit packages and related party transactions. As these disclosures are considered to be of interest to users of the accounts, we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

# 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 regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit 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 A.

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

Both Derby City Council (stand alone entity) and Derby Homes Limited are considered to be full scope audits, council based on size and Derby Home based on risk

## 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. Individually, these components do not exceed more than 1% of the Group's Gross Expenditure.

# Scoping the group audit

**Group audit team involvement in component audits**

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- Derby City Council as a stand alone entity is considered the significant component and a full scope entity for which we complete the audit procedures as set out in the other sections of this audit plan. This covers over 99% of the group accounts assets, liabilities, expenditure and income.

Auditing standards require us to be involved in the work of component teams. For 2021/22, this will relate to the audit of Derby Homes Limited, undertaken by BDO LLP. We have listed our planned involvement below:

- Planning meeting with BDO LLP by conference call
- Group audit instructions issued to BDO LLP
- Questionnaire issued to BDO LLP to assist in EY assessment of the work performed
- Closing meeting with BDO LLP by conference call
- Review of BDO LLP reporting documentation and key working papers

# 06 Audit team

# Audit team

## Audit team structure:

Hassan Rohimun
Engagement Partner

Sanchita Rai
Senior Manager

Adeel Shameem
Senior

| Specialist 1 | Specialist 2 |
| --- | --- |
| EY Valuations Team | EY Actuaries |

*Hassan is the Audit Engagement Partner who will sign the opinions on the financial statements. Sanchita Rai and Adeel Shameem will have the responsibility for all operational matters and for the day to day management and delivery of the external audit service.

## Use of specialists

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

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

| Area | Specialists |
| --- | --- |
| Valuation of PPE | EY Valuations Team will be utilised where any specific risks or issues are identified that require further consultation. |
| Pensions Disclosure | EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office) |
| Pension Fund | PwC are commissioned by the NAO to undertake a review of Local Government Actuaries.<br>EY Pensions team performs a rollforward review as required under ISA540 and review the work performed by PwC. |

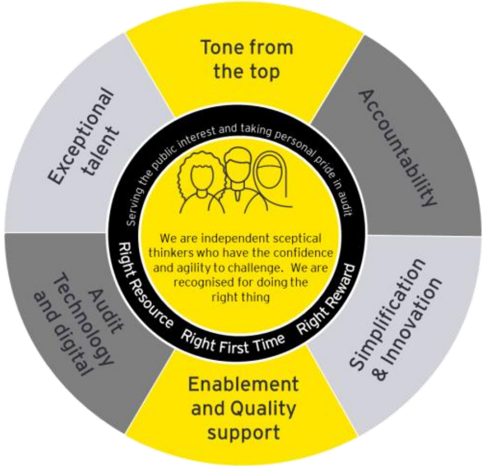
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

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

Below is an indicative timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

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.

| Audit phase | Timetable | Audit committee timetable | Deliverables |
|---|---|---|---|
| Planning:<br>Risk assessment and setting of scopes | **January 2023** | March 2023 | Audit planning report |
| Walkthrough of key systems and processes | **January 2023 - February 2023** | | |
| Yearend audit<br>Account Testing | **March 2023 - April 2023** | | |
| Yearend audit<br>Audit completion procedures | **July 2023 – August 2023** | | |
| Audit Conclusions | **September 2023** | | |
| Audit Certification | **October 2023**<br>**Subject to 2020/21 finalisation** | **October 2023**<br>**Subject to 2020/21 finalisation** | Audit results report<br>Auditor's annual report<br>Audit opinion and completion certificate |

# 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;<br>▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;<br>▸ The overall assessment of threats and safeguards;<br>▸ 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;<br>▸ Details of non-audit/additional services provided and the fees charged in relation thereto;<br>▸ 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;<br>▸ 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<br>▸ 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;<br>▸ 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<br>▸ 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 Hassan Rohimun, 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 current ratio of non-audit fees to audit fees is not 1:1. 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.

| Description of service | Related independence threat | Period provided/ duration | Safeguards adopted and reasons considered to be effective |
|---|---|---|---|
| Housing benefit work no longer forms part of the work required by PSAA and we are engaging separately with the Council on the appointment for this work in 2021/22. Our baseline fees for current year is £20,846 but the finalised fee is yet to be confirmed and will vary depending on the amount of testing required. In 2020/21, fees were £20,846 which covered all work performed. | Self review threat – figures included in the return are also included in the financial statements. | Year ended 31 March 2022. | The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of the Housing Benefits agreed upon procedures engagement is distinct and separate to any work we have or will undertake on the financial systems of the Council. The results of the testing is not reflected in the amounts included/disclosed in the financial statements.<br><br>In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this engagement. Our external audit is concluded prior to this engagement. The external audit conclusion is therefore not reliant upon the conclusion of the Housing Benefit engagement. No advice will be given in relation to accounting treatment.<br><br>The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement for Housing Benefits and will not be used or relied upon for any other purposes. |

# 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 dated October 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.

| Description | Planned fee 2021/22 £ | Final Fee 2020/21 £ |
|---|---|---|
| **Audit Scale fee** | 109,766 | 109,766 |
| **Additional audit fee (scale fee variation to rebase the scale fee to a sustainable level) see Note 1** | 138,869 | 138,869 |
| **Additional audit fee (additional costs incurred specific to the current year audit) see Note 2** | TBC | TBC |
| **Statutory Audit Fee** | TBC | TBC |
| Housing Benefit Subsidy Claim | TBC | 20,846 |
| Teacher's Pension Audit | NA | 6,500 |
| Pooling of Housing Capital Receipts | NA | NA |
| **Total non-audit services** | **TBC** | **27,346** |

*All fees exclude VAT*

The agreed fee presented is based on the following assumptions:

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

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

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

(Note 1) As per the Redmond Report, local government external audit fees have not kept pace with regulatory change. We believe that changes in the work required to address professional and regulatory requirements and scope changes associated with the risk of the organisation mean that the scale fee for the Group should more realistically be set at a level of £248,635. The scale fee is set by PSAA Limited. The Council does not agree with our assessment.

(Note 2)
2021/22, we expect a number of items to impact on the audit fee, such as the continuation of additional procedures relating to PPE including Infrastructure assets, group scoping, Grants received, Litigations, value for money, estimates and going concern. We will discuss the impact of these with management before agreeing our final fee which will be subject to PSAA approval.
2020/21 – There have been changes to our audit scope because of new VFM arrangements requirements, Group accounts, Grants received, revised estimates standard and additional work in response to issues arising during the audit related to valuations and audit of Infrastructure assets. We will discuss the impact of these with management before agreeing our final fee which will be subject to PSAA approval.

# 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 | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team | Audit Planning Report – March 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<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ Other matters if any, significant to the oversight of the financial reporting process | Audit results report - September 2023 (subject to 2020/21 finalisation) |

# Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The adequacy of related disclosures in the financial statements | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Material misstatements corrected by management | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Subsequent events | ▸ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Fraud | ▸ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements<br>▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>▸ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility | Audit results report - September 2023 (subject to 2020/21 finalisation) |

# 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:<br>► Non-disclosure by management<br>► Inappropriate authorisation and approval of transactions<br>► Disagreement over disclosures<br>► Non-compliance with laws and regulations<br>► Difficulty in identifying the party that ultimately controls the entity | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>► The principal threats<br>► Safeguards adopted and their effectiveness<br>► An overall assessment of threats and safeguards<br>► Information about the general policies and process within the firm to maintain objectivity and independence<br>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. | Audit results report - September 2023 (subject to 2020/21 finalisation) |

# Appendix B

## 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<br>▸ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| 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<br>▸ 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 | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Internal controls | ▸ Significant deficiencies in internal controls identified during the audit | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Group audits | ▸ An overview of the type of work to be performed on the financial information of the components<br>▸ 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<br>▸ 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<br>▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted<br>▸ 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 – March 2023<br>Audit results report - September 2023 (subject to 2020/21 finalisation) |

# Required communications with the Audit Committee (continued)

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Auditors report | ▸ Any circumstances identified that affect the form and content of our auditor's report | Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Fee Reporting | ▸ Breakdown of fee information when the audit plan is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit Planning Report – March 2023<br>Audit results report - September 2023 (subject to 2020/21 finalisation) |
| Value for Money | ▸ Risks of significant weakness identified in planning work<br>▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. | Audit Planning Report – March 2023<br>Audit results report - September 2023 (subject to 2020/21 finalisation) |

# Appendix C

## Additional audit information

### Objective of our audit

Our objective is to form an opinion on the 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.<br>▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.<br>▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.<br>▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.<br>▶ 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.<br>▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group 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<br>▶ Maintaining auditor independence. |

# Additional audit information (continued)

| Other required procedures during the course of the audit (continued) | |
|---|---|
| **Procedures required by the Audit Code** | ▸ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.<br>▸ 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