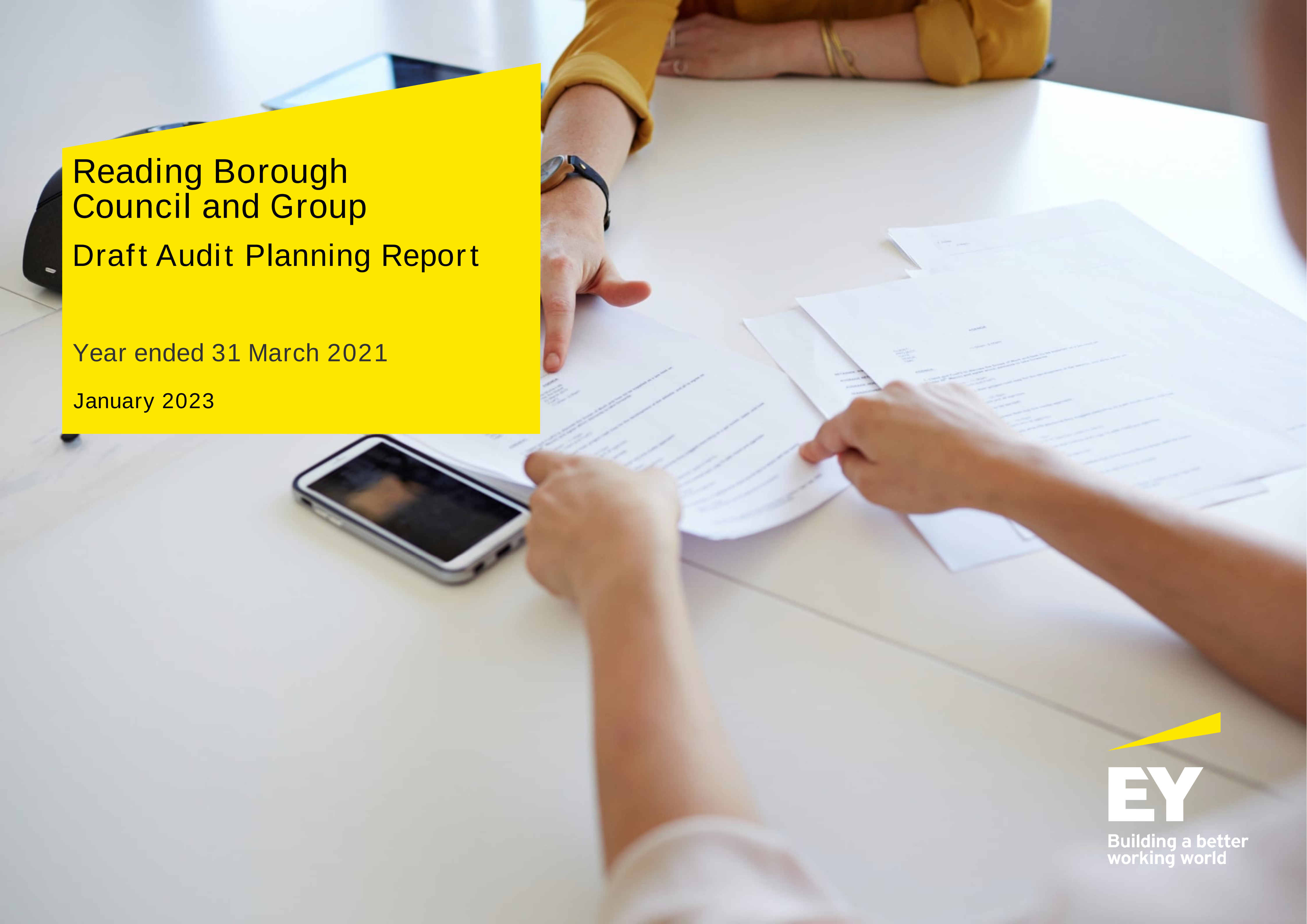
Reading Borough Council and Group

Draft Audit Planning Report

Year ended 31 March 2021

January 2023



Building a better working world

Reading Borough Council

13 January 2023

Audit & Governance Committee

Dear Audit & Governance Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as the appointed auditor at Reading Borough Council. Its purpose is to provide the Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 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 Draft Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy for 2020/21 in response to those risks. Our planning procedures remain ongoing; we will inform the Audit & Governance Committee if there are any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the Committee.

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

We welcome the opportunity to discuss this report with you on 24 January 2023 as well as understand whether there are other matters which you consider may influence our audit. At that meeting we will also be able to update you on the progress being made with the 2020/21 audit and our plans for completing the audit.

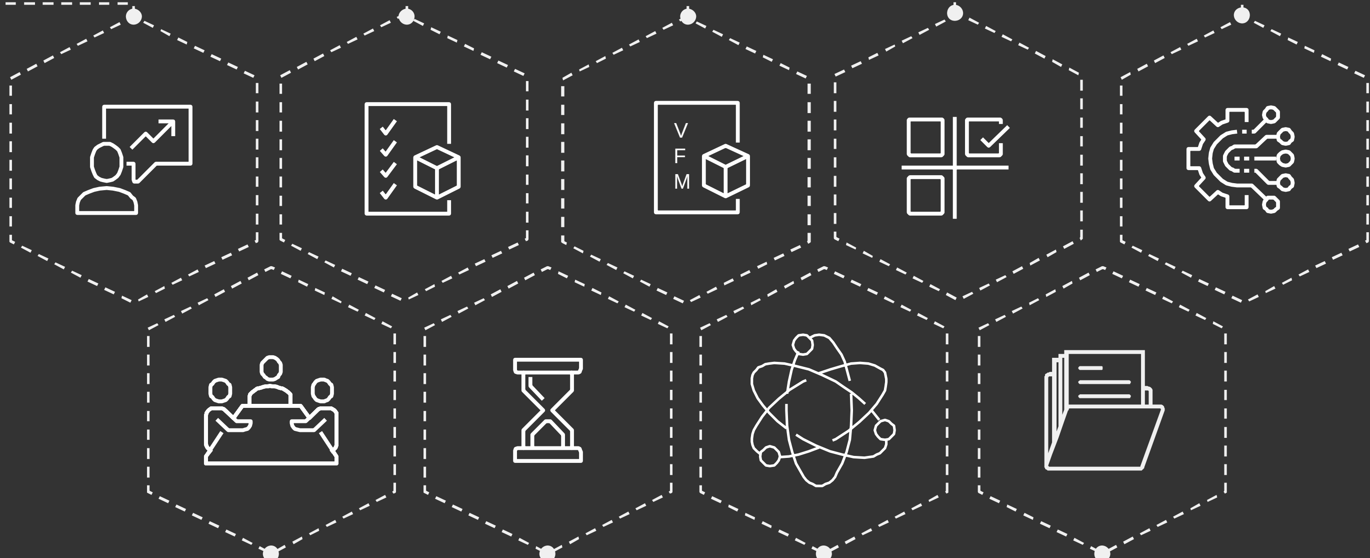
Yours faithfully

Maria Grindley

Partner

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 and Governance Committee of Reading Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee of Reading Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee of Reading Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 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
Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. From our initial planning we believe this risk manifests itself in the incorrect capitalisation of revenue expenditure.
Potential misstatement in PPE valued using Existing Use value (EUV) and Investment Properties valued at fair value due to significant judgements involved	Significant risk	No change in risk or focus	The carrying amount of Property Plant and Equipment (PPE) and the fair value of Investment Properties (IP) represent significant balances in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively. Management, through the external valuers, performs revaluations of the PPE and IP properties and incorporates material judgemental inputs and applied estimation techniques to calculate the year-end balances of PPE and IP in the balance sheet. Moreover, the emergence of Covid 19 in the first quarter of 2020 affected the economic operation which in turn for specific classes of assets materially impacted the value of property categories across UK. As a result of the above matters, we considered the related specific risk to be on the valuation of PPE (specifically assets valued at Existing Use Value (EUV) and IP as significant for the financial year 2020/21.
Incorrect valuation for pension liability due to significant judgement involved	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 requires the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme with administration provided by Royal Borough of Windsor and Maidenhead on behalf of the Royal Berkshire Pension Fund. The Council uses the services of Barnett Waddingham, an actuarial expert, to support them with the actuarial assumptions and disclosures supporting the IAS 19 figures. Due to the significant estimation and judgements involved, we assess the IAS19 figures to carry a higher inherent risk.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & 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
Going concern disclosures	Inherent risk	No change in risk or focus	We consider that the unpredictability of the current economic environment during 2022/23 gives rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19, the high inflationary economic environment, the Council's actual year end financial position and medium term financial forecast.
Potential error in the accounting treatment of cash reconciling items in main bank account reconciliation	Inherent risk	No change in risk or focus	In 2018/19 and 2019/20 we identified issues with unexplained and untraceable cash reconciling items in the main bank account reconciliation of the Council. There is a higher inherent risk that errors in accounting treatment of the related cash reconciling items may occur. We will review the bank reconciliations including reconciling items to assess any potential impact in 2020/21.
Group accounts: differences in accounting policies of the components	Inherent risk	No change in risk or focus	We are aware that all the subsidiaries follow FRS102 for their accounts preparation, while the Council's group accounts follow the CIPFA Code, supported by IFRS. There is a higher inherent risk that the consolidated figures might not be harmonised to comply with the Group accounting policies.
Inappropriate infrastructure asset recognition and derecognition	Inherent risk	New Inherent Risk	An issue was raised via the NAO's Local Government Technical Group as to whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for replaced components that need to be de-recognised when the subsequent expenditure is added. It was highlighted that this could also lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost. This is a national issue impacting the majority of clients holding material infrastructure assets. Legislation has recently been passed which offers a time limited resolution to the matter. Therefore, we considered this as a higher inherent risk due to the timing of this report and the fact that we have been unable to yet audit the Council's proposed response to the new legislation.
Incorrect accounting treatment of COVID grants	Inherent risk	New Inherent Risk	With the outbreak of COVID, the UK government announced several grants to support both local authorities and the wider community including businesses. Each grant had different terms and conditions attached which meant that the Council had to carefully consider if the grants should be accounted for as agent or principal. An incorrect judgement could result in a material error.

Overview of our 2020/21 audit strategy

Group Materiality

Planning materiality

£5.61 m

Materiality has been set at £5.61 m, which represents 1% of the gross expenditure on provision of services as per 2020/21 unaudited accounts. This is consistent with the threshold applied in the prior year.

Performance materiality

£2.81m

Performance materiality has been set at £2.81 m, which represents 50% of planning materiality. This is consistent with the threshold applied in the prior year.

Audit differences

£0.28 m

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, housing revenue account, collection fund) greater than £280 k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Governance Committee.

Overview of our 2020/21 audit strategy

Single - entity Materiality

Planning materiality
£4.73m

Materiality has been set at £4.73 m, which represents 1% of the gross expenditure on provision of services as per 2020/21 unaudited accounts. This is consistent with the threshold applied in the prior year.

Performance materiality
£2.36 m

Performance materiality has been set at £2.36 m, which represents 50% of planning materiality. This is consistent with the threshold applied in the prior year.

Audit differences
£0.24m

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, housing revenue account, collection fund) greater than £236k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit & Governance Committee.

Overview of our 2020/21 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 Reading Borough Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

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

Given the delays in certifying the prior year accounts we will be unable to 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 Reading Borough Council's audit, we will discuss these with management as to the impact on the scale fee.

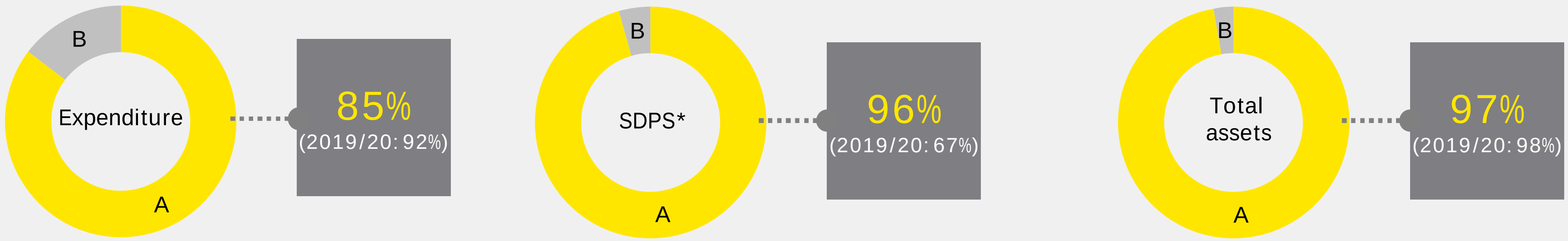
Effects of climate-related matters on financial statements and Value for Money arrangements
Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not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

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

Overview of our 2020/21 audit strategy

Audit scope – for group audit

As part of our group audit work, we have performed scoping of the components (i.e. subsidiaries) of Reading Borough Council. We have considered a full scope audit approach (A) for Reading Borough Council and Reading Transport Limited and specific scope audit approach (B) for Homes for Reading and Brighter Future for Children audits.



**Surplus or Deficit on Provision of Services*

- We have specifically considered the scope of our audit in response to the identified risks in the Section 1 of this report and how these risks impacted the components of RBC.
- All of the components of RBC were either designated as full scope or specific scope audit approach and there were no components that were excluded from the scoping above.
- Section 4 provides an overview of the nature of our planned involvement in the work to be performed by the auditor of the full and specific scope components.
- We intend to take a full substantive audit approach.

Overview of our 2020/21 audit strategy

Value for money conclusion

The NAO updated the Code in 14 December 2021 which applies to the financial year 2020/21 audit, the key changes from the previous years are set out in detail in Section 03 but fundamentally, we will now produce a Value for Money (VfM) commentary covering set criteria and we will report this in an Auditor's Annual Report which replaces the Annual Audit Letter.

We include details the status of the value for money conclusion in Section 03 of this report, but in summary:

- We are required to consider whether Reading Borough 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 Reading Borough 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 Reading Borough Council's arrangements against three reporting criteria:
    - Financial sustainability - How Reading Borough Council plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How Reading Borough Council ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How Reading Borough Council uses information about its costs and performance to improve the way it manages and delivers its services.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

Publication of Audited Accounts
The Department for Levelling Up, Housing and Communities (DLUHC) 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, DLUHC announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

As the Council is still in the process of completing the 2019/20 audit it has clearly missed the deadline for the certification. As we have regularly reported to the Audit & Governance Committee we are working closely with officers to agree a plan so that the Council can begin to close the gap in terms of having historical audit years closed. We will continue to keep the Audit & Governance Committee updated on the progress of the Council in this matter.

02 Audit risks

Our response to significant risks

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

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

Financial statement impact

Misstatements that occur in relation to Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure could affect the income and expenditure accounts. These accounts had the following balances in the 2020/21 financial statements:
Income Account: £490m
Expenditure Account: £480m

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 is the risk?

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

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services.

Achievement of the budget is critical to minimizing the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve the budget increases the risk that the financial statements may be materially misstated.

Whilst there is no more than normal pressure on the Council to meet the outturn position, due to the size of the capital programme there is a risk of inappropriate capitalisation of revenue expenditure.

What will we do?

- Review the capital programme to assess what schemes are included and identify anything unusual or unexpected;
- Review capital expenditure incurred by the Council to ensure that it has been correctly classified as capital rather than revenue; and
- We will specifically test Property, Plant and Equipment (PPE) additions with a specific focus on incorrect capitalisation of revenue expenditure.

In addition to the above, our audit procedures in relation to fraud and error also include review of:

- Journal entries; specifically manual journals posted by management in the preparation of the financial statements.
- Significantly unusual transactions entered into by management that are outside of the normal scope of business of the Council; and
- Management bias in key accounting estimates and judgements.

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.

Potential misstatement in PPE valued using existing usage value (EUV) and IP valued at fair value due to significant judgements involved

Financial statement impact

Misstatements that occur in relation to above risk would affect the value of the report other land and buildings and investment property as well as the revaluation increases (decreases) recognised in the revaluation reserve or surplus/deficit on the provision of services and income and expenditure in relation to the changes in fair value of investment

In 2020/21 draft statement of accounts, the council reported the PPE revalued using EUV amounted to £43.6m whereas the IP revalued during the year amounted to £76m.

What is the risk?

The carrying amount of PPE and the fair value of IP represent significant balances in the Council's accounts and are subject to impairment reviews, depreciation charges and valuation changes, respectively.

Management through the external valuers performed revaluations of the PPE and IP and incorporate material judgemental inputs and apply estimation techniques to calculate the year-end balances of PPE and IP in the balance sheet. Moreover, the emergence of Covid 19 global pandemic in the first quarter of 2020 affected the economic operation which in turn impacted significantly the value of the properties across UK.

As a result of the above matters, we considered the related risk on the valuation of PPE (specifically land and building) and IP as significant for the financial year 2020/21.

What will we do?

- Consider the work performed by the Council's valuers specifically for PPE valued using EUV and IP valued at fair value, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the CIPFA Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- For a sample selected from the PPE valued using EUV and IP valued at fair value, we will assess whether the valuation basis was appropriate and whether the assumptions used were supportable. We will also reperform the valuers' calculations;
- Use our internal valuation specialists to perform a detailed assessment of a sample of risk assessed assets;
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test that accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
Incorrect valuation for pension liability due to significant judgement involved 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 Royal Borough of Windsor and Maidenhead. 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 2021 this totalled £551 million (2020: £396 million).	We will: • Liaise with the auditors of Royal Berkshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Reading Borough Council; • Assess the work of the Pension Fund's actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and • Engage EY Pensions Consulting team to carry out roll forward calculations related to the accounting numbers for the fund, to reconcile the year-end liability figures with those from the previous year disclosures.
Going concern disclosures This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. We believe the risk has increased following Covid-19 and more recently by the high inflation economy. We consider the unpredictability of the current environment to give rise to a risk that the Council will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.	We will: • Assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate; • Discuss management's going concern assessment and consider any evidence of bias and consistency within the accounts; • Ensure that an appropriate going concern disclosure has been made within the financial statements; and • Consider the impact on our audit report and compliance with EY consultation requirements.

Other areas of audit focus (continued)

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

What is the risk/area of focus?	What will we do?
Potential error in the accounting treatment of cash reconciling items in main bank account reconciliation During the 2019/20 audit, we identified issues with unexplained and untraceable cash reconciling items in the main bank account reconciliation of the council. Management was required to provide resolution in 2002/21 over the related issue noted in 2019/20. However, initial discussion with the management revealed that the same issue still exist and the management is currently working on to resolve the issue. As a result of the above issue, we believe that there is a higher inherent risk that errors in the accounting treatment of the related cash reconciling items may occur.	We will: • Obtain management's revised bank reconciliation for the main bank accounts; • Perform a review of the bank reconciliation of the main accounts focusing on the bank reconciling items and testing at lower thresholds; and • Assess the accounting treatment of the reconciling items and trace the journal entries made to identify any inappropriate treatment.
Group accounts: differences in accounting policies of the components We performed the group scoping for the subsidiaries of Reading Borough Council and subsidiaries as being significant for our audit of the Council's group accounts for 2020/21 including Brighter Futures For Children Limited, Homes for Reading Limited and Reading Transport Limited. We are aware that all the subsidiaries follow FRS102 for their accounts preparation, while the Council's group accounts follow the CIPFA Code, supported by IFRS.	We will: • Identify material subsidiary balances and transactions consolidated in the Group accounts and assess whether the accounting treatment of those amounts complies with the Group accounting policies and also the CIPFA Code; • Where exceptions are identified, we will request for management's assessment and will review it for reasonableness; • Instruct the relevant component auditors to report to us under the group accounting policies; • Check additional disclosure requirements in the Group accounts of the Council.

Other areas of audit focus (continued)

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

What is the risk/area of focus?	What will we do?
Inappropriate infrastructure asset recognition and derecognition An issue was raised in 2022 via the NAO's Local Government Technical Group as to whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for replaced components that needs to be de-recognised when the subsequent expenditure is added. This may also lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost. This is a national issue impacting the majority of clients holding material infrastructure assets. CIPFA published in May 2022 its 'Temporary Proposals for the Update of the Code of Practice on Local Authority Accounting in the United Kingdom' on infrastructure assets. Asset registers do not tend to record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. Given this lack of record keeping, it is not possible to identify the cost and accumulated depreciation balances that need to be de-recognised. The issues effects additions to infrastructure from 2010/11 when IFRS was adopted by the CIPFA code of practice. Infrastructure Assets have a Gross Book Value of £303.6 m as at 31 March 2020.	We will: • Review the time-limited legislation passed in December 2022 to address the matter; and • Assess the Council's proposed response, including any associated accounting adjustments and disclosures, to the revised legislation.
New Central Government Grants and Other COVID-19 Funding Streams Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies. We know that Reading Borough Council received £11m in Covid-19 Grants during 2020/21 The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.	We will: Consider the Council's judgement on material grants received in relation to whether it is acting as: • An Agent, where it has determined that it is acting as an intermediary; or • A Principal, where the Council has determined that it is acting on its own behalf.

03 Value for Money Risks

Value for Money

Background on 2020 Code

The NAO updated the Code in 14 December 2021 which applies to the financial year 2020/21 audit, we will now produce a Value for Money (VfM) commentary covering set criteria and we will report this in an Auditor's Annual Report which replaces the Annual Audit Letter. The commentary will now highlight any significant weakness identified in the arrangement against the three reporting criteria *financial sustainability*, *governance* and *improving economy, efficiency and effectiveness* and will bring to the body's attention along with the recommendation for improvement. The details of the changes on Council's responsibilities and Auditor's responsibilities are set out below.

Council's responsibilities for value for money

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

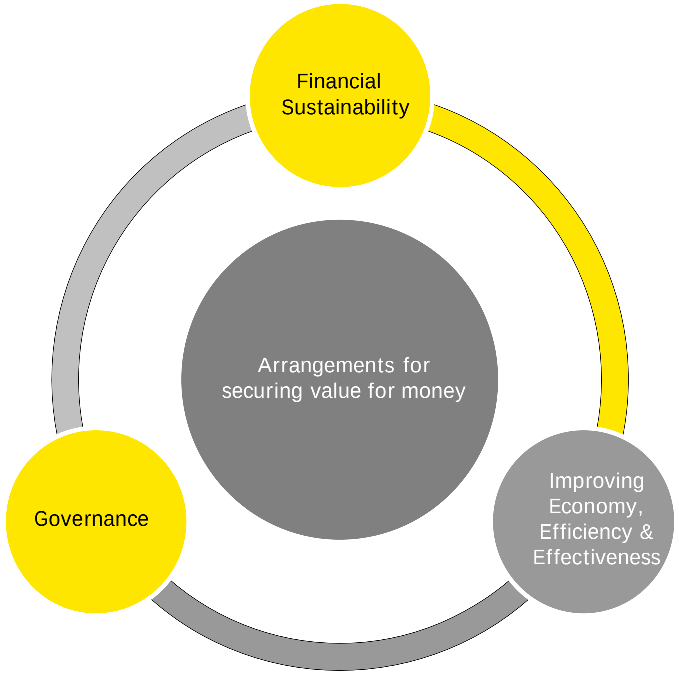
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Auditor responsibilities

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

The specified reporting criteria are:

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



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.

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 2020/21 VFM planning

We have yet to complete our detailed VFM planning. However, one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability – including the impact of Covid-19 and the high inflationary economy on the medium term financial planning.

In addition, due to a qualification in the 2019/20 VFM conclusion we will also need to specifically revisit the following key areas:

- Maintaining a sound system of internal control; and
- Working with Partners and Third Parties

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

04 Audit materiality

Materiality

Group Materiality

For planning purposes, group materiality for 2020/21 has been set at £5.615m. This represents 1% of the Council's 2020/21 unaudited group gross expenditure on provision of services. It will be reassessed throughout the audit process.

Component performance materiality is allocated based on the relative size and risk identified at component level and it is calculated as a percentage of the group performance materiality. We set the performance materiality for Brighter Futures for Children Ltd at £1.011m, and Reading Transport Ltd & Homes for Reading Ltd at £0.562m. We have provided supplemental information about audit materiality in Appendix C.

Gross expenditure on provision of services
£561m

Planning materiality
£5.61m

Performance materiality
£2.80 m

Component performance materiality
£0.562m/
£1.011m

Audit differences
£0.281m

Single-entity Materiality

For planning purposes, single-entity materiality for 2020/21 has been set at £4.73 million. This represents 1% of the Council's 2020/21 unaudited gross expenditure on provision of services. It will be reassessed throughout the audit process.

Gross expenditure on provision of services
£473m

Planning materiality
£4.73m

Performance materiality
£2.36m

Audit differences
£0.24m

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

Materiality (continued)

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 £2.36 million for the council and £2.80 million for the Group which represents 50% of planning materiality. We have set the 50% threshold based on the issues noted in 2019/20 and also to reflect the anticipated errors in 2020/21.

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 same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account, collection fund and firefighters' pension fund financial statements 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 & Governance Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality lower than that specified above for specific accounts for e.g. remuneration disclosures, related party transactions, and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. See details in the next slide.

Materiality (continued)

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

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

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

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 [delete if not applicable]

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 2020/21 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.

02	A	Full scope audits
02	B	Specific scope audits
00	C	Review scope audits
00	D	Specified procedures
00	E	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations. The full scope audits are Reading Borough Council (the Council) and Reading Transport Limited (RTL)

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. The components under specific scope audits includes Brighter Future for Children (BFfC) and Homes for Reading (HfR).

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.

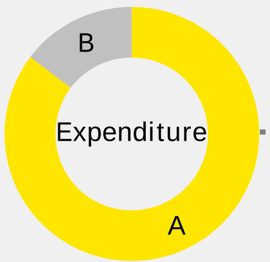
Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

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. No entities will be reviewed under this method

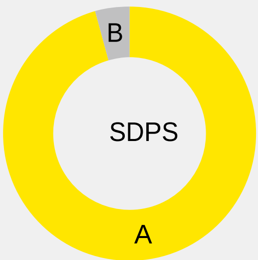
Scoping the group audit (continued)

Coverage of Revenue/Profit before tax/Total assets

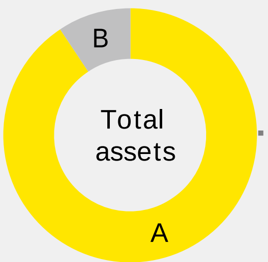
Based on the group's results, our scoping is expected to achieve the following coverage of the group's revenue, total assets and surplus / deficit in the provision of services (SPDS):



85% (2019/20:92%) of the group's expenditure will be covered by full and specific scope audits, with the remainder covered by Azets Audit Services and UHY Hacker Young.



96% (2019/20:67%) of the group's surplus or deficit on provision of services will be covered by full and specific scope audits, with the remainder covered by Azets Audit Services and UHY Hacker Young.



97% (2019/20:98%) of the group's forecast total assets will be covered by full and specific scope audits, with the remainder covered by Azets Audit Services and UHY Hacker Young.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only. Further details on the scoping of the Group audit can be found at Appendix A.

Key changes in scope from last year

- Specific scope for Brighter Further for Children (BFfC) will include review on income as this now has become material in FY 2020/21
- COVID related grants are to be reviewed by auditors that they meet CIPFA's definition of agent / principal grants

Details of other procedures

- Perform analysis of Homes for Reading (HfR)'s investment property valuation

Scoping the group audit (continued)

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.

Location name	Planned involvement by the Group team
Full scope 1 – Reading Borough Council	The accounts of the parent and the largest component, Reading Borough Council, will be fully audited by us, representing the primary team. We assessed that the materiality levels applied for the audit of the separate accounts of Reading Borough Council are appropriate for the overall group accounts' audit.
Full scope 2 – Reading Transport Limited	We sent group audit instructions to the statutory auditor of Reading Transport Limited and will review the audit work described in their deliverables covering the significant risk areas. We will ensure consistency and sufficiency of audit procedures for our group audit purposes.
Specific scope 1 – Homes for Reading	We will perform full audit procedures in accordance with EY's methodology over the in-scope accounts identified at the subsidiary level. We determined the direct audit approach to be most suitable due to the nature of the in-scope accounts identified and the timing of the audit in relation to the reporting date.
Specific scope 2 – Brighter Futures for Children	We sent group audit instructions to the statutory auditor of Brighter Futures for Children and will review the audit work described in their deliverables covering the in-scope accounts identified by us. We will ensure consistency and sufficiency of audit procedures for our group audit purposes.

Scoping the group audit (continued)

The below table sets out the scope of our audit. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping							
In scope locations	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Gross Expenditure	Total assets	SDPS	Size	Risk
Reading Borough Council	Full	✔	77%	94%	95%	Yes	Yes
Reading Transport Limited	Full	No	8%	3%	1%	No	Yes
Homes for Reading	Specific	No	14%	1%	4%	No	Yes
Brighter Futures for Children	Specific	No	1%	2%	0%	No	Yes
TOTAL FULL and SPECIFIC SCOPE			100%	100%	100%		

06 Audit team

Audit team

Audit team changes

The other key Group team members are the same as last year.

Audit team structure:

Maria Grindley
Partner

Adrian Balmer
Senior Manager

Francis Llave
Assistant Manager

Kyoung Cho
Senior

EY Pension Consulting

EY Real Estate

* Key Audit Partner

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	Sanderson Weatherall (external valuer) Reading Borough Council (internal valuer) EY Real Estate (EY specialist)
Pensions disclosure	Barnet Waddingham (actuary) Deloitte LLP (actuary's external auditor) EY Pension Consulting (EY specialist)
PFI	Arlingclose (external expert)

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 a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	September 2022		
Walkthrough of key systems and processes	October 2022		
Year end audit testing	October – December 2022		
Year end audit testing	January 2023	Audit & Governance Committee	Draft Audit Planning Report
Year end audit testing	February – March 2023	Audit & Governance Committee	
Audit Completion procedures	April 2023	Audit & Governance Committee	Draft Audit Results Report

Our audit of the 2020/21 accounts is progressing well. We are aiming to have substantially completed the majority of our audit work by the end of February 2023 with a view to completing final procedures and checks and issuing our audit opinion in March 2023 subject to satisfactory conclusion of all outstanding queries and internal consultation processes.

08 Independence

Introduction

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

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, 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, we are in the process of still completing the 2019/20 audit and will then need to agree the final Scale Fee Variations for 2019/20 audit. As part of that we will need to provide detail submissions to the Public Sector Audit Appointments Ltd as part of an agreed process for discussing Scale Fee Variations. We will also supply further information to management as part of the agreement of the audit fee for 2019/20. In due course we will then report to the Audit & Governance Committee the final agreed fee for 2019/20.

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 approximately 1:4. 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.

Relationships, services and related threats and safeguards

Self review threats

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

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

Management threats

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

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

Other threats

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

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

EY Transparency Report 2021

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

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.

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

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Total Fee – Code work	83,884	83,884	83,884
Additional Fee	TBC*2	TBC*2	TBC*1
Other – Housing Benefits	TBC*4	45,500	45,500
Total audit			
Other non-audit services: Housing Capital Receipts	TBC*3	TBC*3	TBC*3
Other non-audit services: Teacher's Pensions	13,000	13,000	12,500
Total other non-audit services	TBC	TBC	TBC
Total fees	TBC	TBC	TBC

All fees exclude VAT

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

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion 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.

(1) As at the date of this report the 2019/20 audit is ongoing and substantially complete. We will provide an update on the fee at the next Audit & Governance Committee meeting. Any additional fee will need to be formally approved by PSAA.

(2) For 2020/21 the planned fee represents the base fee, i.e. not including any extended testing. For 2020/21 , the scale fee will be impacted by a range of factors which will result in additional work. We will update the Audit & Governance Committee at the conclusion of the audit.

(3) Certification of 2019/20 has not yet been completed due to some technical issues. We will provide an update when the claim is fully certified.

(4) The certification of the 2020/21 Housing Benefits subsidy claim is substantially complete and in final review as at the date of this report. The Teacher's Pension review was completed in line with the agreed deadlines for those returns and the fees noted above represent the final fees paid.

Appendix B

Required communications with the Audit & Governance Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit & 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.	Draft Audit planning report presented to the January 2023 Audit & Governance Committee
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee

Appendix B

Required communications with the Audit & Governance Committee (continued)

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

Required communications with the Audit & Governance Committee (continued)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Draft Audit planning report presented to the January 2023 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Draft Audit planning report presented to the January 2023 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee

Appendix B

Required communications with the Audit & Governance Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit & 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 & governance committee may be aware of.	Draft Audit planning report presented to the January 2023 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee
Internal controls	• Significant deficiencies in internal controls identified during the audit	Draft Audit Results Report to be presented at the January 2023 Audit & Governance Committee

Required communications with the Audit & Governance Committee (continued)

Our Reporting to you

Required communications	What is reported?	When and where
Group audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Draft Audit planning report presented to the January 2023 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Draft Audit planning report presented to the January 2023 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee
Value for Money	• Risks of significant weakness identified in planning work • Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Draft Audit planning report presented to the January 2023 Audit & Governance Committee; and draft Audit Results Report to be presented at the April 2023 Audit & Governance Committee; Auditors' Annual Report

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

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	• Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. • Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period
Other procedures	• We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

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