London Borough of Merton Draft Audit Results Report

Year ended 31 March 2022

11 November 2022

Building a better working world

11 November 2022

London Borough of Merton
Standards and General Purposes Committee
Civic Centre
Morden
SM4 5DX

Dear Committee Members

2022 Audit Results Report

We are pleased to attach our draft audit results report, summarising the status of our audit of the London Borough of Merton (the Authority).

The audit is designed to express an opinion on the 2022 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Standards and General Purposes Committee, other members of the Authority and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcomed the opportunity to discuss the contents of this report with you at the Standards and General Purposes Committee meeting.

Yours faithfully

E.Jackson.

Elizabeth Jackson, Partner
For and on behalf of Ernst & Young LLP
Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Standards and General Purposes Committee and management of the London Borough of Merton in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of the London Borough of Merton 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 Standards and General Purposes Committee and management of the London Borough of Merton 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 Executive Summary

Executive Summary

Scope update

In our audit planning report dated 9 June 2022, presented to the Standards and General Purposes Committee on 21 July 2022, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following updates:

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

Materiality	Group (£m)		Authority (£m)	
	Outline Audit Plan	Final	Outline Audit Plan	Final
Planning Materiality	£10.0m	£10.9m	£9.8m	£10.7m
Performance Materiality	£7.5m	£8.2m	£7.3m	£8.0m
Audit Differences	£0.5m	£0.5m	£0.5m	£0.5m

Additional Significant Risk - Infrastructure Assets

During 2022, a national technical issue was raised in respect of the accounting treatment of Infrastructure Assets. The issue was raised through the National Audit Office’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 also determined that this may in turn 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 local government bodies holding material infrastructure assets. We included this as an areas of focus in our audit plan but have subsequently reclassified this as a significant risk given its impact on the financial statements.

CIPFA published in May 2022 its ‘Temporary Proposals for the Update of the Code of Local Authority Accounting in the UK’ on Infrastructure Assets. Following the CIPFA consultation, it was indicated that there may be enhance guidance, or amendments to the CIPFA Code. Asset registers do not tend to record Infrastructure Assets with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. This is the case at the Council. Given the challenges raised as a result of the level of information available, it is not possible to identify the cost and accumulated depreciation balances that need to be de-recognised. The issues in respect of the CIPFA Code of Practice affects additions to Infrastructure Assets from 2010/11 when IFRS Accounting was adopted by the CIPFA Code of Practice.

Infrastructure Assets have a net book value of £99.1 million as at 31 March 2022.

The Council have decided to wait for a potential statutory override which would need statutory approval before a revised and updated Code of Practice would be available. It is anticipated that the timetable for this legislation may now be in late December 2022 which means officers will then need some time to implement the new Code and make the necessary adjustments to the financial statements. It is therefore likely that the financial statements will not be finalised until January / February 2023.

Executive Summary

Scope update

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Status of the audit

As at 11 November our audit work in respect of the Authority's opinion remains in progress. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Receipt of the IAS19 letter from the auditor of Merton Pension Fund;
- Property, plant and equipment valuation testing across all asset classes;
- Queries relating to short term debtors and creditors;
- Grant and covid grant testing;
- Receipt of outstanding evidence to support our work on other disclosures, including but not limited to leases and related party transactions;
- Responses to our queries raised on the Authority's going concern disclosure and supporting cashflow forecast;
- Completion of journal testing;
- Update of our subsequent events procedures to the date of our opinion;
- Final check of the updated financial statements and narrative report after completion of all outstanding procedures;
- Receipt of a signed letter of management representation; and
- Whole of Government Accounts: We have yet to receive the NAO instructions on this for 2021/22.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 03.

Executive Summary

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Authority has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority 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 Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit – Value for Money

In the audit planning report presented to the Standards and General Purposes Committee in July 2022, we reported that we were yet to complete our value for money (VFM) risk assessment. We subsequently completed our planning risk assessment and did not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO’s 2020 Code.

We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness.

As a result, we have completed our planned VFM procedures. We plan to issue the VFM commentary as part of issuing the Auditor’s Annual Report within three months of the audit report. There are no issues arising that impact on the auditor opinion report.

Executive Summary

Audit differences

Adjusted differences

Our audit of the Authority's draft accounts has identified a number of adjustments. At the current time we await a revised version of the financial statements but anticipate that the Council will adjust for all differences that we have identified:

- Collection Fund – There were a significant number of errors in the underlying workings for the collection fund. These resulted in material changes to not only the collection fund but also the primary statements, The errors were generally clerical in nature and included the mis-posting of journals which had an impact of £5.6m on the impairment provision for national non domestic rates debtors and incorrect signage within the underlying working papers and accounts disclosures.
- Cash – Cash in the draft accounts was understated by £1.1m due to the ledger not agreeing to the underlying bank reconciliations and bank statement confirmations. We have also identified individually immaterial school balances of £1.4m which represent funds raised by the Schools themselves, we are currently investigating if these balances should be included within the financial statements.

We include specific details in Section 02 in our response to areas of audit focus and Section 04 audit differences as appropriate.

A small number of other non-material amendments were made to disclosures appearing in the financial statements as a result of our work.

As our audit is still ongoing further differences may be identified.

Unadjusted differences

As stated above we anticipate all adjustments identified to be corrected by management.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee on the outcome of this work. Currently, the issue of the template submission by HM Treasury has been delayed, meaning that this work cannot be performed until December at the earliest. This does not affect our ability to sign the audit opinion on your financial statements.

We have no other matters to report.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

We identified two control deficiencies that we wish to draw to your attention in relation to the Collection Fund and the preparation of the underlying working papers. More details can be found in section 07 of this report.

Independence

Please refer to Section 08 for our update on Independence. We have no independence issues to report .

02 Areas of Audit Focus

Audit risks

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

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

This risk applies to the Council (single entity) and group financial statements.

What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of expenditure as a potential area of manipulation.

What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

What are our conclusions?

As a result of our procedures:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We have not identified any other transactions which appeared unusual or outside the Authority's normal course of business.

This conclusion is subject to completion of the outstanding items on page 6.

Significant risk

Inappropriate capitalisation of revenue expenditure

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What is the risk and potential impact on the financial statements?

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

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

This risk applies to the Council (single entity) and group financial statements.

What did we do and what judgements did we focus on?

We:

- Tested additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Considered the need to test REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. However, we note that expenditure capitalised as REFCUS was well below our performance materiality level so there was no requirement to undertake any detailed testing.
- Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

In testing the capitalised expenditure we focused on the following judgements:

- We sought to gain assurance the capitalised spend clearly enhanced or extended the useful like of assets rather than simply repairing or maintaining the assets on which it was incurred.
- We sought to gain comfort that any development or other related costs that were capitalised were reasonable to capitalise i.e. the costs incurred were directly attributable to bringing the asset into operational use.

We sought to utilise our data analytics capabilities to assist with our work, including journal entry testing.

What are our conclusions?

We have not identified any indication of management inappropriately capitalising revenue expenditure subject to completion of the outstanding items on page 6.

Significant risk

Risk of fraud in revenue and expenditure recognition

(Covid-19 grants)

What is the risk?

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

We have considered the income and expenditure streams of the Council and our assessment is that the risk is most prominent with regards to inappropriate recognition of Covid-related grant funding, including incorrect identification of whether the Council is acting as the principal or an agent and whether any associated terms and conditions were met prior to recognition.

This risk applies to the Council (single entity) and group financial statements.

What judgements are we focused on?

We focussed on testing a sample of Covid-19 related grants ensuring that the key judgments regarding their recognition had been appropriately applied.

What did we do?

- Reviewed the accounting treatment of new Covid-related grants for 2021/22 to confirm that they have been correctly accounted for as either a principal or agent arrangement.
- Tested a sample of Covid-19 related grants to ensure that any terms and conditions were met prior to recognition as income and that the grants have been correctly accounted for.

What are our conclusions?

Our work to date has highlighted a number of issues with the reconciliation of grants received as per the financial statements and the underlying working papers.

It has also identified a number of instances where the Council have incorrectly recorded if they are acting as principal or agent. We are currently working with the Council to quantify this and our work remains ongoing.

Significant risk

Valuation of Land and Buildings – PPE valued under Depreciated Replacement Cost (DRC) and Existing Use Value (EUV)/Fair Value (FV)

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What is the risk and potential impact on the financial statements?

The fair value of land and buildings represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Management is required to make material judgements 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.

In 2020/21 significant changes were made to the carrying value of property, plant and equipment in the financial statements in the current and comparative years as a result of our work. Our work highlighted:

- The incorrect application of amenity land value for undeveloped land in non-school assets; and
- The blanket use of discounted residential land rates to non residential assets valued at DRC.

This risk applies to the Council (single entity) and group financial statements.

What did we do and what judgements did we focus on?

We:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuer.
- Tested accounting entries have been correctly processed in the financial statements.
- Ensured that appropriate disclosure had been made in the accounts concerning the possibility of 'material uncertainty'.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. Sampling focussed on:
    - Assets more susceptible to the market volatility brought about by C-19. We consider this relates to assets carried at either fair value or EUV
    - Asset categories where errors were noted in the prior year.
    - Other significant classes of assets, for example schools, where we have no prior year knowledge of the approach of the new external valuer and there had been significant changes in the carrying value of assets from the prior year.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Reviewed assets not subject to valuation in 2021/22 to confirm the remaining asset base was not materially misstated.

Our work in this area is currently ongoing and we will provide a verbal update to the Standards and General Purposes Committee.

Significant risk

Infrastructure assets

What is the risk?

An issue has been raised through the National Audit Office's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part / component has been replaced or decommissioned. This matter is currently under consideration by CIPFA and the Department for Levelling Up, Housing and Communities. The Council hold Infrastructure Assets, with a net book value of £99.1 million at 31 March 2022.

As a result of not writing out gross cost and accumulated depreciation where components are replaced, there is a risk that, if this is the case for elements not fully depreciated, assets in the balance sheet could be overstated. We have raised a significant risk in this area to ensure the correct accounting treatment is applied that takes into account any updated guidance from CIPFA and that the Council has appropriate evidence to support that treatment.

This risk applies to the Council (single entity) and group financial statements.

What judgements are we focused on?

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

- Continue to discuss the matter with the Council as guidance on accounting for Infrastructure Assets is updated.
- Understand the Council's Infrastructure Assets balance and the individual assets comprising this balance.
- Sample test expenditure additions to Infrastructure Assets to test whether they are additions to an asset or are replacements component of an asset.
- Understand the Council's process for writing out gross cost and accumulated depreciation on the Infrastructure Assets balance and any replacement additions to determine whether this is materially correct at the balance sheet date.

What are our conclusions?

Given the decision to wait for a statutory override which would need statutory approval before a revised and updated Code of Practice would be available, it is likely that audit work on this area cannot be finalised until January / February 2023.

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Areas of Audit Focus

Inherent Risks

What is the risk/area of focus?	What did we do?
National Non-Domestic Rates (NNDR) Appeals Provision Statistics compiled by the Department for Levelling Up, Housing and Communities (DLUHC), reveal that councils are forecasting net additions to appeal in the coming years. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based. In light of this we consider there to be a higher inherent risk of misstatement of the Authority's NNDR appeals provision.	We: • Reviewed the assumptions made by the Council's NNDR appeals provision specialist Analyse Local; and • Assessed the reasonableness of any local adjustments made by the Council on the NNDR appeals provision. Our testing concluded that the provision was fairly stated.
Going concern disclosures Covid-19, together with the political and economic turmoil in the external environment creates a number of financial pressures and risks across local government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations that can only be discontinued under statutory prescription shall prepare their financial statements 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. To address the requirement of the ISA, the auditor must review management's assessment of the going concern basis. The auditor's report in respect of going concern covers at least a 12-month period from the date of the report, therefore the Council's assessment also needs to cover this period.	We: • Reviewed, tested and challenged supporting evidence provided by management to assess the reasonableness of financial projections. • Tested and assessed the reasonableness of the Council's cash flow forecasts. • Audited the levels of current and proposed borrowing against the prudential borrowing limit to confirm that the Council plans to remain within that limit. • Reviewed management's going concern assessment in the draft financial statements. We asked management to make a number of amendments and enhancements to the disclosure. • Read the narrative report and financial statement disclosures in relation to the financial statements being prepared on a going concern basis to ensure that they were consistent with our knowledge of the Council's financial position Our work in this area is ongoing and we will provide a verbal update to the Standards and general Purposes Committee.

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Inherent Risks

What is the risk/area of focus?	What did we do?
Valuation of defined benefit pension scheme 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. The Council's pension liability is a material estimated balance and is required to be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued by the Pension Fund actuary to the Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf. We are required to undertake procedures on the use of the use of the actuary as management's expert and the assumptions underlying fair value estimates.	We: • Liaised with the auditors of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the London Borough of Merton. • Assessed the work of the Pension Fund actuary including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considered any relevant reviews by the EY actuarial team. • Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. At the time of writing of this report, our planned work in this area is largely complete, but we are waiting on the assurance letter provided by the Pension Fund Auditor. We have assessed the work of the pension fund actuary on the pension liability. This included the use of Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors & our EY actuary team. This showed the pension liability was fairly stated. We reviewed and tested the accounting entries and disclosures made by the authority and confirmed they were in line with relevant account standards and The Local Authority Accounting Code of Practice. We will provide a verbal update at the Standards and General Purposes Committee.

03 Audit Report

Audit Report

A draft audit report will be provided on completion of the outstanding procedures documented within this report.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Adjusted differences

Our audit of the Authority's draft accounts has identified a number of adjustments. At the current time we await a revised version of the financial statements but anticipate that the Council will adjust for all differences that we have identified:

- Collection Fund – There were a significant number of errors in the underlying workings for the collection fund. These resulted in material changes to not only the collection fund but also the primary statements, The errors were generally clerical in nature and included the mis-posting of journals which had an impact of £5.6m on the impairment provision for national non domestic rates debtors and incorrect signage within the underlying working papers and accounts disclosures.
- Cash – Cash in the draft accounts was understated by £1.1m due to the ledger not agreeing to the underlying bank reconciliations and bank statement confirmations. We have also identified individually immaterial school balances of £1.4m which represent funds raised by the Schools themselves, we are currently investigating if these balances should be included within the financial statements.

We include specific details in Section 02 in our response to areas of audit focus and Section 04 audit differences as appropriate.

A small number of other non material amendments were made to disclosures appearing in the financial statements as a result of our work.

As our audit is still ongoing further differences may be identified.

Unadjusted differences

As stated above we anticipate all adjustments identified to be corrected by management.

05 Value for Money

Value for money

The Authority's responsibilities for value for money (VFM)

The Authority 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.

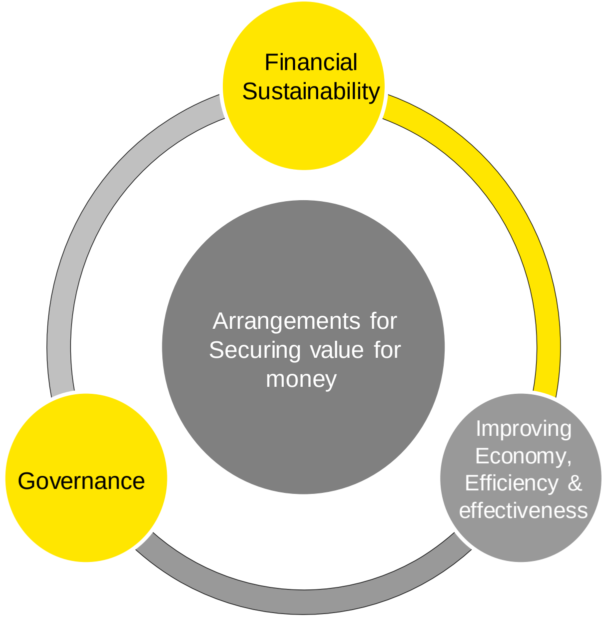
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

In the Audit Planning Report presented to the Standards and General Purposes Committee in July 2022, we reported that we were yet to complete our value for money (VFM) risk assessment. We subsequently completed our planning risk assessment and did not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures.

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within three months of issuing the audit report. There are no issues arising that impact on our audit opinion.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the 2021/22 Financial Statements document with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have concluded that the financial information in the 2021/22 Draft Financial Statements document and published with the financial statements was consistent with the audited financial statements.

The Annual Governance Statement is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because the NAO are yet to release their group instructions for 2021/22. The audit certificate will be issued once this work is complete.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations; and
- Consideration of laws and regulations.

We have nothing further to report on these issues that is not contained within other sections of our report.

07 Assessment of Control Environment

Assessment of Control Environment

Assessment of Control Environment

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed and we considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely.

As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware, but wish to draw the following issue to your attention.

Collection Fund

As noted above there were a significant number of errors in the underlying workings for the collection fund. These resulted in material changes to not only the collection fund but also the primary statements, The errors were generally clerical in nature and included the mis-posting of journals which had an impact of £5.6m on the impairment provision for national non domestic rates debtors and incorrect signage within the underlying working papers and accounts disclosures.

There had been staff changes in the preparation of the collection fund in the current year, and given the nature of the errors these were clearly identifiable from a review of the draft financial statements. Management should ensure sufficient support and review is provided to ensure any detectable errors are identified before the draft accounts are issued for audit.

As our audit is still ongoing further areas for improvement may still be identified.

8 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Authority and its members and senior management and its affiliates, including all services provided by us and our network to the Authority, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final proposed fee 2021/22	Planned fee 2021/22	Final Fee 2020/21
	£	£	£
Scale Fee – Code work	£110,493	£110,493	£110,493
Final 2020/21 scale fee variation determined by PSAA (Note 1)	-	-	£99,821
Scale fee rebasing (Note 2)	£133,276	£133,276	-
Risked based fee variations (see Note 3)	TBC	TBC	-
Total Fees	TBC	TBC	£210,314

Note 1 – The 20/21 final fee includes a scale fee variation which has been determined by PSAA of £99,821.

Note 2 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work and in order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £133,276 to deliver the audit in 2020/21 which reoccurred in 2021/22 and we expect to reoccur in subsequent years. This also includes the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these latter areas.

Note 3 - As noted in the previous sections of this report, we have identified new and continuing risks for 2021/22 that are not within the scale fee. Additional work will be required, but we are unable to quantify the impact at this time until the audit is complete.

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

EY UK 2022 Transparency Report | EY UK

9 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There were no significant changes to our audit approach apart from the additional work we were required to undertake to address the requirements of the new auditing standard on accounting estimates. This primary impacted out audit procedures on:

- The revaluation of land and buildings classified as Property, Plant and Equipment (PPE), Investment Property (IP) and Surplus Assets.
- Pension liability and asset valuation.

Appendix B

Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Standards and General Purposes 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. 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 Plan, July 2022 meeting of the Standards and General Purposes 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	Audit Results Report, November 2022 meeting of the Standards and General Purposes

Appendix B

		Our Reporting to you
Required communications	**What is reported?**	**When and where**

Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity
	• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist
	• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:
	    • Management;
	    • Employees who have significant roles in internal control; or
	    • 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 Standards and General Purposes Committee responsibility.
		Audit Results Report, November 2022 meeting of the Standards and General Purposes

Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Plan, July 2022 meeting of the Standards and General Purposes Committee Audit Results Report, November 2022 meeting of the Standards and General Purposes

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report, November 2022 meeting of the Standards and General Purposes
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit Results Report, November 2022 meeting of the Standards and General Purposes

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Plan, July 2022 meeting of the Standards and General Purposes Committee Audit Results Report, November 2022 meeting of the Standards and General Purposes
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report, November 2022 meeting of the Standards and General Purposes
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report, November 2022 meeting of the Standards and General Purposes

Appendix C

Management representation letter

A draft letter of representation will be provided on completion of the outstanding procedures documented within this report.

EY | Assurance | Tax | Transactions | Advisory

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