Sheffield City Council

Audit planning report

Year ended 31 March 2022

15 September 2022

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Agenda Item 6

EY
Building a better working world

Private and Confidential

Audit and Standards Committee

Sheffield City Council.
Town Hall.
Pinstone Street.
Sheffield

15 September 2022

Dear Audit and Standards Committee Members,

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Sheffield City Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Standards 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 22 September 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully,

Hayley Clark

For and on behalf of Ernst & Young LLP

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

01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue recognition ▸ Overstatement of income - dwelling rents, fees & charges, other income and grant income (including Covid-19).	Fraud risk	Change in focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and non-specific grant income, where management is able to apply more judgement. Specifically, our risk is focused on: ▸ The occurrence of other income (including fees and charges, dwelling rentals, social care income and other income). ▸ The occurrence of grant income, including Covid-19 grants, when based on conditions that are required to be met.
Risk of fraud in expenditure recognition ▸ Inappropriate capitalisation of expenditure ▸ Understatement of expenditure	Fraud risk	Change in focus	As set out above, under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We consider that this risk is more prevalent in the following areas; ▸ Over the medium term we consider this is likely to occur through the capitalisation of expenditure that should be accounted for in the Comprehensive Income and Expenditure Statement (CIES); and ▸ Understatement of other operating expenditure (Premises Expenditure, Transport Expenditure, Supplies and services, Third party payments, Transfer payments, Support services) to manage the financial position year on year.
Valuation of Highways Infrastructure Assets	Significant risk	New risk for 2021/22	Due to significant practical accounting difficulties, there is a risk that the depreciation and derecognition policies employed by local authorities do not fairly represent the rate in which these assets are consumed or replaced. If records held by the Council do not allow for sufficient appropriate evidence to be obtained to gain assurance over the gross and net positions in respect of these assets, it increases the risk that material assurance cannot be provided within our opinion.

Overview of our 2021/22 audit strategy

Audit risks and areas of focus (continued)

Risk / area of focus	Risk identified	Change from PY	Details
Property, Plant and Equipment - Valuation of Fair Value assets	Significant risk	No change in risk or focus	The Council has a large and complex asset base that makes up a significant proportion of its balance sheet. The valuation process incorporates significant judgements, which if inappropriate could result in a material misstatement. We consider the significant risk to be focused on those PPE assets that are valued at fair value due to the higher degree of estimation involved by the property valuers in calculating the valuation of the assets at the balance sheet date.
Property, Plant and Equipment - Valuation of EUV, EUV-SH and DRC assets	Other financial statement risk (Higher inherent risk)	No change in risk or focus	Given their more formulaic nature and less reliance on market value, we do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC), Existing Use Valuations (EUV) and Existing Use Valuation for Social Housing (EUV-SH). However, as there is still an element of judgment and estimation involved we do consider there to be a higher inherent risk.
Investment property valuation	Other financial statement risk (Higher inherent risk)	No change in risk or focus	Investment property assets are valued at fair value. Whilst there is a greater estimation risk associated with these assets, and more judgement exercised by property valuers, the Council's portfolio comprises of two assets, which in total are less than our planning materiality, but are still significant at a value of £19 million at 31st March 2022. As there is still an element of judgment and estimation involved we do consider there to be a higher inherent risk.
Local Government Pension Scheme	Other financial statement risk (Higher inherent risk)	No change in risk or focus	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. The estimation of the defined benefit assets involves estimation on the expected asset returns for the year based on the movement in the underlying Pension Authority total assets. A small movement in these assumptions could have a material impact on the value in the balance sheet.
PFI accounting treatment	Other financial statement risk (Higher inherent risk)	No change in risk or focus	The Council has a number of PFI and service concession arrangements which include several judgements made by management resulting in the accounting treatment shown in the financial statements. Such arrangements are complex and substantial in value and there is a risk that they have not been accounted for correctly.

Overview of our 2021/22 audit strategy

Materiality

Planning materiality
£28.7m

Materiality has been set at £28.7m, which represents 1.8% of the draft gross expenditure on provision of services. This is consistent with the base used for our Materiality set in the prior year.

Performance materiality
£14.4m

Performance materiality has been set at £14.4m, which represents 50% of materiality. Further information is given in section 4.

Audit differences
£1.44m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £1.44m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Standards Committee.

Overview of our 2021/22 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Sheffield City Council give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and

- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Sheffield City Council's audit, we will discuss these with management as to the impact on the scale fee.

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

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements. We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

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

The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

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

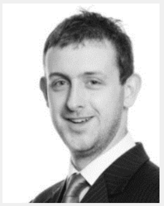
In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November for 2021/22.

We are working with the Council to deliver the audit ahead of the January 2023 meeting of the Audit and Standards Committee. In Section 07 we include a provisional timeline for the audit.

Audit team changes

Key changes to our team.

Partner – Hayley Clark
Hayley will already be familiar to both management and members of the Audit and Standards Committee, having been involved in all three previous EY audits of the Council. For 2021/22 Hayley will be charged with the responsibility of signing the audit opinion of the Council. Hayley replaces Janet Dawson as signing Partner; however Janet remains engaged with the Council attending meetings with management twice a year and the Audit and Standard Committee as required.



Senior Manager – Dan Spiller
Dan took up the role of Audit Manager late in the process of concluding our audit of the 2020/21 financial statements and begins his first full year as your Audit Manager. Dan is already familiar with the Council and with management due to that prior involvement and has held a full debrief with management on the previous year's audit in April 2022.

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.

	What is the risk?	What will we do?
Misstatements due to fraud or error *	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.	▶ Identifying fraud risks during the planning stages and where appropriate recognising these as separate fraud risks in our audit approach. ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management's processes over fraud. ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▶ Determining an appropriate strategy to address those identified risks of fraud. ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Our response to significant risks (continued)

Risk of fraud in revenue recognition *

- **Overstatement of income – dwelling rents, fees & charges, other income and grant income (including Covid-19).**

Financial statement impact

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

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

Income from Dwellings: £146m
Fees and Charges income: £118m
Other income (including that for Social Care Services): £45m

Covid related grants: £18m
Grants credited to services: £586m*

*we have associated the risk to only the portion of this balance that are subject to performance related conditions.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and non-specific grant income, where management is able to apply more judgement. Specifically, our risk is focused on:

- The occurrence of other income (including fees and charges, dwelling rentals, social care income and other income), where management may have overstated income in the current financial year.
- The occurrence of the grant income drawn down in year, including Covid-19 grants. The Council receives numerous grants that are credited to services within which lies judgement on whether conditions have been met in order to recognise this income. Further to this, we will also focus on Covid-19 grant income, which has been drawn down from grants received in the previous financial year. These Covid-19 grants are relatively new and with this comes uncertainty as to when they can be recognised. This overstatement of grant income will be focused on grants and contributions excluding taxation & non-specific grants, but including Covid-19 support grant income.

What will we do?

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

- Understanding and challenging management on any accounting estimates or judgements on income recognition for evidence of bias;
- Performing overall analytical review procedures to identify any unusual movements or trends for further investigation;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually move income from the subsequent year;
- Undertaking a monthly trend analysis using our data analytics tools to identify any unusual movements in balances for further analysis and testing;
- Performing a month by month trend analysis on rentals from dwellings income and performing a reconciliation between the dwelling rental income recognised and the rental system; and
- Sample testing the revenue and capital grants received by the Council to ensure the accounting treatment and recognition applied to grant income is appropriate and in line with any associated conditions.

Our response to significant risks (continued)

Risk of fraud in expenditure recognition *

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

Financial statement impact

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

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

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

Non-pay operating expenditure: £956m

PPE Additions: £125m

What is the risk?

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

We consider that this risk is more prevalent in the following areas;

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

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

We consider the risk of understatement of other operating expenditure to be relevant to those significant other expenditure items, where more judgement is likely to be applied. Specifically, our risk is focused on Premises Expenditure, Transport Expenditure, Supplies and services, Third party payments, Transfer payments, Support services.

What will we do?

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

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

Our response to significant risks (continued)

Property, Plant and Equipment – Valuation of Infrastructure Assets

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What is the risk?

Infrastructure assets are valued at historic cost, most specifically the cost incurred when replacing old or constructing new infrastructure assets.

Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, Councils often capitalise schemes of expenditure and depreciate over an estimated economic life.

Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life.

The main 'technical issue' relates to subsequent expenditure on highways infrastructure assets and specifically on whether local authorities should be assessing if there is any residual value remaining in replaced components that needs to be de-recognised when the subsequent expenditure is added and whether assets are identifiable.

While this is standard practice for many fixed assets, it may not generally be being implemented for (highways) infrastructure assets because there are a variety of significant practical difficulties in applying the standard approach to such assets. This is, particularly in relation to roads, where the engineering records used to maintain, replace and add to the assets have not been created to map against identifiable components. It was recognised previously that it was not possible to typically identify components as the network was one asset and information on previous historical repairs is not available in a meaningful or identifiable way particularly for roads.

The CIPFA Board are considering whether full application of IAS 16 requirements is appropriate for (highways) infrastructure assets or whether it should be adapted to take account of the practical issues identified.

CIPFA continue to consult in this area and any pronouncement or adaptations to the code that occur may alter our approach in this area, or the level of risk attached.

There is a risk that if we are unable to obtain sufficient, appropriate audit evidence to gain assurance over the valuation and existence of these assets that the scope of our audit may be limited. This will impact the opinion we provide on the financial statements and we will remain in regular contact with the Audit and Standards Committee to keep members up to date.

Financial statement impact

There is a risk that the Council is unable to accurately estimate the value of Infrastructure assets at the balance sheet date.

The value of the Infrastructure assets in the draft financial statements is £773.6m.

What will we do?

- Perform a walkthrough to understand and evaluate the key processes in place to account for infrastructure assets, including; capturing accurate information, componentisation, monitoring of, and the treatment in relation to, subsequent expenditure, impairment and disposal or de-recognition;
- Test the reasonableness of the valuation of the highways infrastructure asset;
- Consider any subsequent guidance issued by CIPFA that may impact on the accounting for infrastructure assets; and
- Assess the extent of information deficit that exists to create materially accurate disclosures.

Our response to significant risks (continued)

Property, Plant and Equipment – Valuation of Fair Value Assets

Financial statement impact

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

The net book value of the related assets in the financial statements was £333m at 31st March 2022.

What is the risk?

Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts.

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out by the Council's own specialist valuer or an external valuer is engaged for specific types and classes of assets. Valuers must follow the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. This process incorporates significant judgements.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk that these assets may be under/overstated impacting on their valuation 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.

What will we do?

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. Also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated and whether asset have been assessed for impairment and are materially correct;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Engage internal EY valuation specialists to review the approach of the Council valuer, consider assumptions underpinning the valuation and to provide expected valuations for a sample of assets valued during the year;
- Test accounting entries have been correctly processed in the financial statements;
- Review the classification of assets and ensure the correct valuation methodology has been applied; and
- Consider external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the area where relevant. Specifically we will consider if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued.

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?
Property, plant and equipment - Valuation of EUV, EUV-SH and DRC assets Given their more formulaic nature and less reliance on market data, we do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC), Existing Use Valuations (EUV) and Existing Use Valuation for Social Housing (EUV-SH). However, as there is still an element of judgment and estimation involved we do consider there to be a higher inherent risk. The Council's asset base is significant, and the outputs from the valuer are subject to estimation, therefore there is a risk that fixed assets may be under/overstated impacting on their valuation 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 estimates.	We will: ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▶ Sample test asset valuations, utilising the support from EY valuation specialists where it is considered appropriate to do so, considering assumptions underpinning the valuation and to provide expected valuations of assets selected; ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. Also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▶ Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated and whether asset categories held at cost have been assessed for impairment and are materially correct; ▶ Test accounting entries have been correctly processed in the financial statements; and ▶ Review the classification of assets and ensure the correct valuation methodology has been applied.
Investment Property valuation Investment property assets are valued at fair value. Whilst there is a greater estimation risk associated with these assets, and more judgement exercised by property valuers, the Council's portfolio comprises of two assets, which in total are less than our planning materiality, but are still significant at a value of £18.8 million. As there is still an element of judgment and estimation involved we consider there to be a higher inherent risk associated with their valuation.	We will: ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▶ Test asset valuations, utilising the support from EY valuation specialists where relevant, considering assumptions underpinning the valuation and to provide expected valuations of assets selected; and ▶ Review the classification of assets and ensure the correct valuation methodology has been applied.

Audit risks

Other areas of audit focus

What is the risk/area of focus?	What will we do?
Pension Liability Valuation 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 South Yorkshire Pension Authority. The Council's pension fund accounting deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2022 this totalled £791 million (£1,001 million at 31 March 2021). The information disclosed is based on the IAS 19 report issued to the Council by the actuary. The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. The estimation of the defined benefit assets involves estimation on the expected asset returns for the year based on the movement in the underlying Pension Authority total assets. A small movement in these assumptions could have a material impact on the value in the balance sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying these estimates.	We will: ▸ Liaise with the auditors of South Yorkshire Pension Authority, to obtain assurances over the information supplied to the actuary in relation to the Council and their work over the valuation of the pension fund's assets; ▸ Assess the work of the Pension Fund actuary (Hymans Robertson, new for 2021/22) 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; ▸ Consider the reasonableness of the actuary's estimate of the asset returns applied in rolling forward the asset position from the prior year; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
PFI and Service Concession arrangements The Council has a number of PFI and service concession arrangements which include several judgements made by management resulting in the accounting treatment shown in the financial statements. The arrangements are supported by complex models to calculate the figures to be included in the financial statements each year. For 2021/22 there is a change to one of the schemes, involving a re-finance gain. In light of this, the Council is in receipt of a sum of money, some of which will be owed back to Central Government who have partially funded this scheme.	Our approach will focus on: ▸ We will review (with the support of EY specialists) the accounting judgements and models to ensure that we are comfortable with the judgements and related accounting treatment in the financial statements, including consultation regarding the changes in year; ▸ For each of the material schemes we will undertake testing of in-year inputs to the accounting models and agree relevant entries in the financial statements to year-end outputs from each of the models; ▸ Review associated disclosures within the financial statements to confirm they meet Code requirements and are reflective of supporting documentation.

03 Value for Money Risks

Value for Money

Council's responsibilities for value for money

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

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

Auditor responsibilities

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

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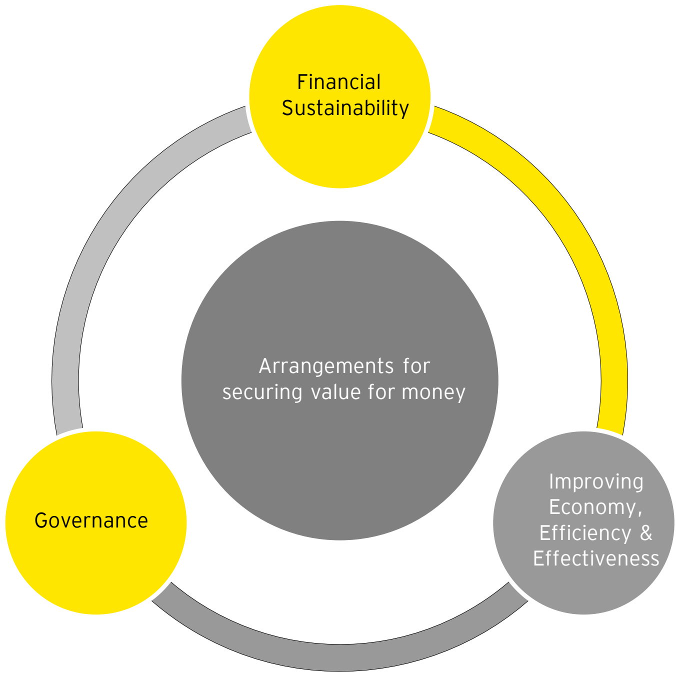
The specified reporting criteria are:

- 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 Standards committee.

Reporting on VFM

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

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

Status of our 2021/22 VFM planning

We have recently started our VFM assessment and have identified the risks set out on the subsequent page to date. In line with the 2020 Code, we will inform the committee if we identify any significant weaknesses in the Council's arrangements.

Value for Money Risks

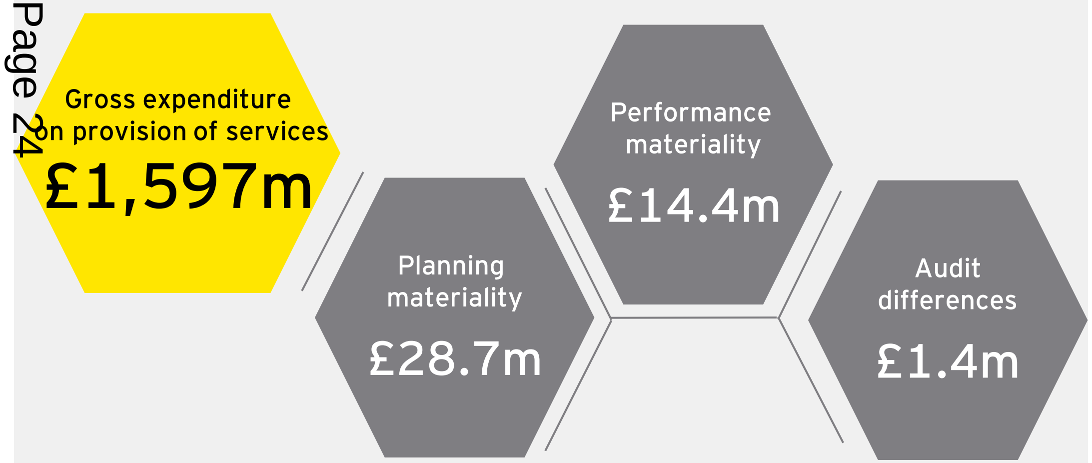
What is the risk of significant weakness?	What arrangements does this impact	What will we do?
Financial sustainability The financial environment in which the Council operates continues to be challenging with continued reductions in funding and increasing demand for services. Whilst the Council does generally have a good track record of delivering financial performance the Council has significant budgetary pressures in the medium term. The Council continues to face significant financial challenges in relation to the adult social care and children's services driven by historic overspends and difficulties in achieving recurrent savings. In addition to this, the Council is experiencing a significant demand for financial support to maintain leisure services within the city. The forecast use of reserves and overall budget gap in the medium term is not sustainable and as indicated by the Council in their reporting of the MTFS, ensuring the ongoing viability will have to involve the prioritisation of resources, identification of additional savings, demand management controls and the effective and prudent utilisation of the Council's reserves.	Financial sustainability	Our approach will focus on: ▸ Considering current financial standing and the availability of reserves to fund future expenditure. ▸ Considering the 2021/22 outturn /performance and impact on the current MTFS. ▸ Considering the appropriateness of key assumptions used by the Council in setting the budget and Medium Term Financial Strategy.
Regeneration programmes The Council continues to invest significantly in the regeneration of the city. This has included the underwriting of a 40 year lease at West Bar and the ongoing Heart of the City redevelopment. With national declines in the value of office and retail space, it is important that the Council has appropriately assessed the risks to their regeneration plans both prior to approving them, and then throughout, to ensure that they remain fit for purpose and emerging risks are being identified and mitigated.	Governance	Our approach will focus on: ▸ Reviewing the decision making process for the approval of investment in West Bar. ▸ Reviewing whether the risks associated with regeneration schemes are appropriately being reflected on the risk register and mitigating actions are being taken.
Reconfiguration of leisure facilities As of August 2024 the City's leisure facilities (Major Sporting Facilities) that have been managed by the Sheffield City Trust since 1988, return to the stewardship of the Council. The Council will inherit aging assets that are in need of repair and by modern standards are less attractive than equivalent facilities in other major cities. They will also increase the operating expenditure of the Council, with increases in the cost of heating and electricity expected in the short-term.	Governance	Our approach will focus on: ▸ Reviewing the decision making process for the future of the Major Sporting Facilities. ▸ Reviewing whether the associated risks with are being appropriately reflected on the risk register and mitigating actions are being taken.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £28.7m. This represents 1.8% of the Council's 2021/22 Draft Accounts' gross expenditure on provision of services. It will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities. We have provided supplemental information about audit materiality in Appendix D.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £14.4m, which represents 50% of planning materiality. When determining the amount to be used as performance materiality we take into account considerations such as the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Given the misstatements identified in the prior year, we have determined that performance materiality needs to be set at 50% of planning materiality. This has an impact on the level of work we are required to perform, and therefore the audit fee.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection 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 & Standards Committee, or are important from a qualitative perspective.

Specific materiality – we have set a materiality for the senior officer remuneration table within the remuneration note, exit packages and related party transactions. As these disclosures are considered to be of interest to users of the accounts, we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

Materiality

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

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

- Remuneration disclosures (specifically the senior officer remuneration table): we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Exit Packages: we will test the workings behind this note by agreeing to payslips and termination letters.
- 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.

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Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

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

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

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

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

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

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

Internal audit:
We will 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.

06 Audit team

Audit team and use of specialists

Audit team structure:

Hayley Clark
Lead Audit Partner

Dan Spiller
Senior Manager

Rebecca Tomkins
Lead senior

Audit team

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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	EY Valuations Team
Pensions disclosure	EY Actuaries
PFI	EY Internal PFI Specialist

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

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 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 2021/22.

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

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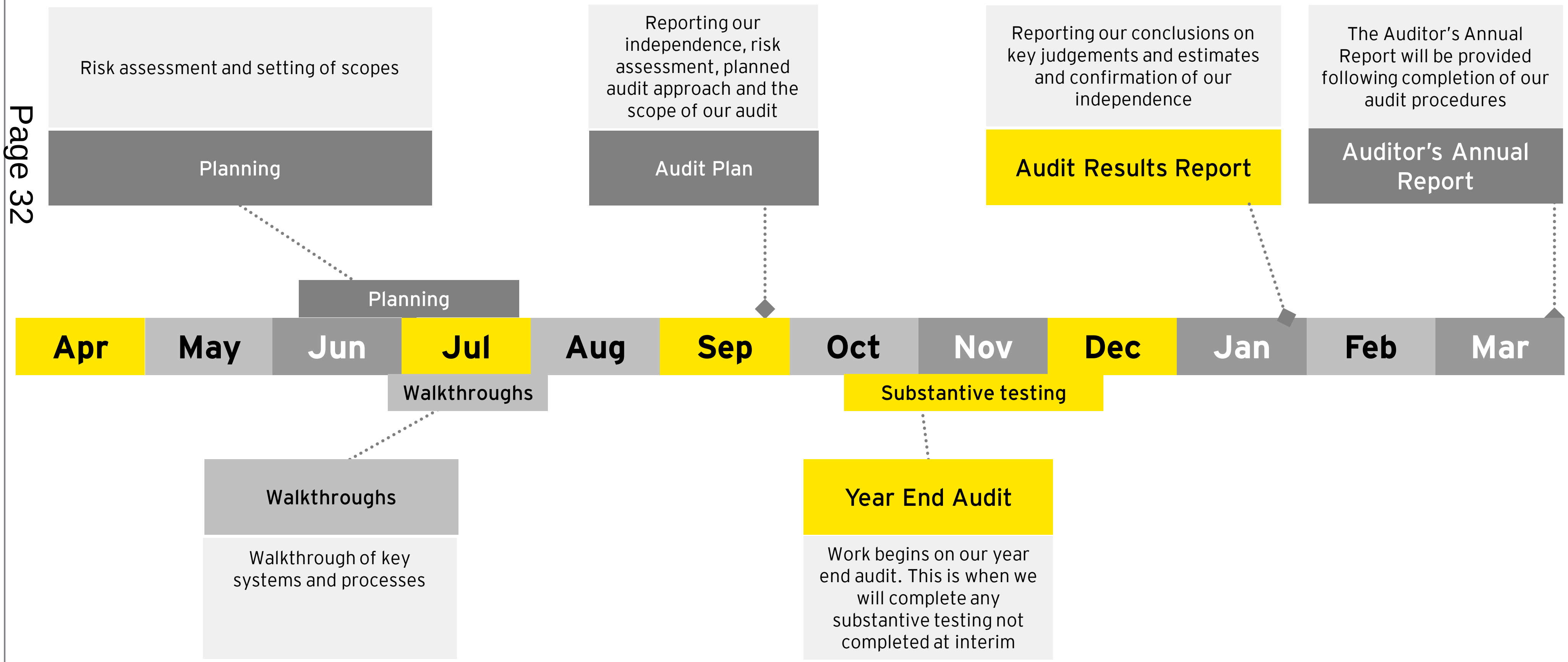

08 Independence

Introduction

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

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hayley Clark, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

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

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is 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.

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. The table below sets out the self review threats that exist as 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.

Relationships, services and related threats and safeguards

Description of service	Related independence threat	Period provided/ duration	Safeguards adopted and reasons considered to be effective
Housing benefit work no longer forms part of the work required by PSAA and we are engaging separately with the Council on the appointment for this work in 2021/22. Our baseline fees are £25,000 but the finalised fee is yet to be confirmed and will vary depending on the amount of testing required. In 2020/21 these were £43k.	Self review threat – figures included in the return are also included in the financial statements.	Year ended 31 March 2022 and for all subsequent accounting periods. However, this will be assessed annually.	The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of the Housing Benefits agreed upon procedures engagement is distinct and separate to any work we have or will undertake on the financial systems of the Council. The results of the testing is not reflected in the amounts included/disclosed in the financial statements. In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this engagement. Our external audit is concluded prior to this engagement. The external audit conclusion is therefore not reliant upon the conclusion of the Housing Benefit engagement. No advice will be given in relation to accounting treatment. The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement for Housing Benefits and will not be used or relied upon for any other purposes.

In relation to the above we are yet to be appointed by the Council and will therefore provide an update in our Audit Results Report if engaged.

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 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021

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 Levelling Up, Housing and Communities. 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.

	Fee 2021/22 £	Fee 2020/21 £	Final Fee 2019/20 £
Scale fee (Note 1)	143,988	143,988	143,988
Additional fees: (Note 2)	TBC	TBC	121,517
Total audit	**TBC**	**TBC**	**265,505**
Non-audit services : - Housing Benefits	TBC	43,000	35,500
Total non-audit services	**TBC**	**43,000**	**35,500**
Total fees	**TBC**	**TBC**	**265,505**

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

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

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

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

As highlighted in the recent Redmond Report, local government external audit fees have not kept pace with regulatory change. We believe that changes in the work required to address professional and regulatory requirements and scope changes associated with the risk of the organisation mean that the scale fee for the Council should more realistically set at a level that reflects the complexity and risk profile of the Council, and the resulting hours required to delivery the audit. The scale fee is set by PSAA Limited.

(1) We wrote to management and the Audit & Standards Committee Chair on 10 February setting out our considerations on the sustainability of UK local public audit. A base fee of £143,988 was prescribed by PSAA for the 20/21 and 21/22 audits but as set out in our discussions with management and the Audit and Standards Committee for, the scale fees are impacted by a range of factors which result in additional work. We are still in the process of agreeing the 2020/21 and 2021/22 fees with management and will provide an update once this process has been finalised. We expect fee levels to be broadly consistent with those for 2019/20 for the financial statements work. The change in requirements of the Code in relation to VFM arrangements may also result in a fee variation. The fees will also be subject to approval by the PSAA.

(2) In 2020/21 the additional fees, that are subject to approval by PSAA, are related to:

1. Pensions - £4,662
2. PFI - £9,155
3. PPE valuation - £26,025
4. WGA - £1,656
5. Debtors/Creditors - £4,884
6. Payroll system implementation - £4,378
7. VfM - £11,690
8. Covid-19 including going concern - £17,399
9. Reduced materiality - £33,755
10. Schools - £5,860
11. Misstatements and adjustments - £2,053

Appendix B

Required communications with the Audit and Standards Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Standards 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	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
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 Auditor's Annual Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Audit results report
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
Subsequent events	▶ Enquiries of the audit & standards committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit results report

Required communications with the Audit & Standards Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	► Enquiries of the Audit and Standards 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 fraud related matters, relevant to Audit and Standards Committee responsibility	Audit results report
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
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report and Audit Results Report

Appendix B

Required communications with the Audit & Standards Committee (continued)

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
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 and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of	Audit results report
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Management letter / Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report Auditor's Annual Report
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report Audit results report
Value for Money	▸ Risks of significant weakness identified in planning work ▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit planning report Audit results report Auditor's Annual Report

Appendix C

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Council's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the UK, 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 & standards Committee. The audit does not relieve management or the Audit & Standards Committee of their responsibilities.

Other required procedures during the course of the audit

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

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

Appendix D

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.

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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

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