London Borough of Redbridge

Audit Results Report

Year ended 31 March 2021

Initial draft - October 2022
Update – April 2023
Final – September 2023

28 September 2023

Governance and Assurance Committee Members
London Borough of Redbridge
Lynton House
259 High Rd
Ilford IG1 1NY

Dear Governance and Assurance Committee Members

We are pleased to attach our final Audit Results Report for the forthcoming meeting of the Governance and Assurance Committee. This report summarises our audit conclusions in relation to the audit of the London Borough of Redbridge (the Council) for 2020/21, and builds on and provides an update to the reports presented to the committee in October 2022 and April 2023.

The audit is designed to express an opinion on the 2020/21 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 Council'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 also include our conclusions on the Council's arrangements to secure value for money in its use of resources.

Delays in the preparation and approval of the financial statements and associated working papers, together with the subsequent number and value of adjustments required to the draft statements significantly impacted the amount of audit work required. These delays also had a consequential impact on the resourcing of the audit. More information is included within the detail of this report.

This report is intended solely for the use of the Governance and Assurance Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent. We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Governance and Assurance Committee meeting in September 2023.

Yours faithfully

Stephen Reid, Partner

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/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 Governance and Assurance Committee and management of the London Borough of Redbridge in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance and Assurance Committee, and management of the London Borough of Redbridge 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 Governance and Assurance Committee and management of the London Borough of Redbridge 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 Provisional Audit Planning Report, presented at the 29 July 2021 meeting of the Governance and Assurance Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Subject to the changes identified below, we carried out our audit in accordance with that plan, and therefore consider that to be our final Audit Planning Report for the purposes of undertaking this audit. There were no material changes to our plan other than set out below.

Changes in materiality

We revisited our planning materiality assessment using the draft Statement of Accounts and also reconsidered our risk assessment:

Materiality	*Group*		*Council*	
	Audit Plan *£m*	*Actual applied* *£m*	*Audit Plan* *£m*	*Actual applied* *£m*
Planning Materiality	*8.8*	*9.1*	*8.7*	*9.0*
Performance Materiality	*4.4*	*4.6*	*4.3*	*4.5*
Audit Differences	*0.4*	*0.45*	*0.4*	*0.45*

Value for money assessment

In our Audit Planning Report, we reported that we were yet to complete our value for money (VFM) planning risk assessment. We subsequently completed our risk assessment and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the National Audit Office's 2020 Code. We have revisited our risk assessment throughout the audit of the financial statements, giving due consideration to the matters we identified and which are included within this report and remain satisfied that we have not identified a risk of significant weakness. More details regarding the risk, our work and conclusions can be found within Section 5 of this report.

Additional audit procedures as a result of Covid-19

Other changes in the Council 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 Council due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. 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.*

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, were published and came into force on 31 March 2021. This announced a change to publication date for final, approved financial statements from 31 July to 30 September 2021 for all relevant authorities.

Executive Summary

Scope update – Infrastructure Assets

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;

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 £98.8 million as at 31 March 2021 and are therefore highly material.

As is the case with most local authorities, officers informed us in September 2022 that the Council would not accept a Limitation of Scope modification to the audit opinion in respect of Infrastructure Assets on the 2020/21 financial statements. Instead, they 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 any necessary adjustments to the financial statements. It is therefore likely that the financial statements will not be finalised until January / February 2022.

Update April 2023 – CIPFA issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets and in December 2022 DLUHC issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022) which allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. The Council took the option to apply the Code adaptation and statutory instrument to their 2020/21 financial statements. They have therefore amended the presentation of infrastructure assets, included the required disclosure note and updated the accounting policy as required by the statutory instrument. Our work to review this restatement and confirming the appropriateness of the in year depreciation charge is currently ongoing.

Update September 2023 – Our work to review this restatement and confirm the appropriateness of the in year depreciation charge is complete, a small number of minor adjustments were made to the draft disclosure presented for audit.

Executive Summary

Scope update – Property, Plant and Equipment – Quality of underlying working papers

Additional Significant Risk – Property, Plant and Equipment – Quality of underlying working papers

In our Audit Planning Report, we identified the valuation of land and buildings as a significant risk. As a result of our initial work on this risk, we identified that in addition to the valuation assertion there were a number of underlying issues with the accounting records used to support the disclosure of property, plant and equipment within the draft financial statements. Our initial testing highlighted:

- *differences between the amounts disclosed within the draft financial statements, the general ledger, the fixed asset register and the valuation reports received from the Council's valuers;*
- *Issues with the accuracy of both the type of asset (for example housing revenue account (HRA) or general fund, investment property or other land and buildings) and the valuation basis; and*
- *We also noted that the depreciation is being based on a useful life that is not always consistent with the accounting policy in the draft financial statements.*

As such, we identified a new significant risk and key audit matter which resulted in increased testing of property, plant and equipment balances and disclosures.

Executive Summary

Status of the audit

Our work in respect of our audit of the Council's financial statements for the year ended 31 March 2021 is now substantially complete. We set out the progress made and the current status of the audit below.

Summary overview of the 2020/21 financial statement preparation and audit process

The 2020/21 financial year was challenging for the Council, as they responded to the Covid-19 pandemic. During production of the 2020/21 financial statements and supporting working papers, both the Chief Accountant and Capital Accountant roles were filled by temporary members of staff, who then left in August and October 2021, respectively. As a result, the draft financial statements were not authorised for issue by the Section 151 Officer until 20 August 2021, after the statutory deadline for publication as defined in the Accounts and Audit Regulations and also later than the agreed timetable agreed by management for the audit.

Our audit was scheduled to commence on 2 August 2021 and complete in September 2021. However, due to the delays in the approval of the financial statements and the provision of working papers we rescheduled the audit at short notice. Whilst we had received assurances over the governance process for quality review of the financial statements before being provided for audit, and the draft financial statements had been certified by the section 151 as being true and fair and free from material error, our initial high level review highlighted a number of issues within the draft financial statement. Subsequently, our audit has highlighted material adjustments to the value of property, plant and equipment disclosed in the financial statements as a result of significant weaknesses in the underlying processes, controls and working papers.

The issues noted in this report in relation to the accuracy and completeness of the Council fixed asset register (which produces the figures for the Council's financial statements in relation to property, plant and equipment and investment properties) have resulted in significant additional audit work and delays to the completion of the audit. The Council have had to undertake significant additional work to resolve the issues identified and assess the impact on the property, plant and equipment balances and the other primary statements and notes. Revised timescales for the provision of corrected financial statements and working papers were agreed.

As part of our update report to the committee in April 2023, we noted that our audit work continued to identify errors in the underlying records and working papers supporting the balances and disclosures related to property, plant and equipment and that we were working with the Council to resolve these matters. This had a detrimental impact on the timely completion of the 2020/21 audit. This is considered in more detail in section 7 of this report.

Key audit matters

Within our audit report, we are required to include 'key audit matters'. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which have the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters are addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. We expect our audit report to include key audit matters in relation to the following areas of our audit:

- *Valuation of other land and buildings (including the quality of underlying working papers);*
- *Valuation of investment properties; and*
- *Incorrect capitalisation of revenue expenditure.*

Executive Summary

Status of the audit

We have provided summary commentary on these key audit matters and other risks identified in our audit plan throughout this report, with more detail in section 2.

Completion procedures

The following items relating to the completion of our audit procedures are ongoing at the point of preparing of this report:

- *Final partner review in a small number of areas.*
- *Audit completion procedures, including a reassessment of materiality.*
- *Receipt of signed financial statements, statement of responsibilities, management representation letter and completion of post balance sheet events.*

Until all these matters are complete, further matters may be identified.

Executive Summary

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Risk	Risk identified	Findings & Conclusions
Risk of fraud in revenue and expenditure recognition (Covid-19 grants)	*Fraud risk / Significant 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 identified the accounting for Covid-19 related grant income as a specific area where revenue may be inappropriately recognised. We have reviewed the Council's accounting for the additional grants received in 2020/21 and did not identify any issues.* *There was a reclassification of £14.2 million between Capital Grant Income from Taxation and Non-specific Grant Income to Capital Grants Receipts in Advance to correct the accounting treatment of grants which our testing identified had conditions attached.*
Misstatements due to fraud or error (management override)	*Fraud risk / Significant risk*	*We have not identified any material weaknesses in controls or evidence of material management override; instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.* *Our work in this area is complete.*

Executive Summary

Risk	Risk identified	Findings & Conclusions
Incorrect capitalisation of revenue spend	*Fraud risk / Significant risk / Key audit matter*	*A key way of improving the Council's revenue position in the short and medium term is through the inappropriate capitalisation of revenue expenditure. We therefore identify this as an area of potential management override, and have sample tested additions to property, plant and equipment and investment property to ensure that they were correctly classified as capital and included at the correct value in order to identify any revenue items that were inappropriately capitalised.* *Our testing identified a number of additions where expenditure had been added to the asset value in the fixed asset register but was assessed as adding no value, resulting in a possible overstatement of the balance in the financial statements. Where significant capital expenditure is incurred the Council should review the assets on a timely basis to ensure the financial statements accurately reflect the value of the asset. We also identified miscoding of a number of items as capital additions (PILON (pay in lieu of notice) costs, temporary accommodation expenditure, feasibility studies and the salary of a Special Educational Needs Manager), none of which were capital in nature. As a result of these errors, we were required to extend our level of testing. We received the information on the additional samples selected for testing on 16 September 2022.* *Our testing identified a number of immaterial items of expenditure which had been capitalised which were not capital in nature. The largest of these was £1.7 million and related to infrastructure maintenance. Management are not proposing to amend the financial statements for these items. We will seek management representation as part of our closing procedures.*
Valuation of investment properties	*Significant risk / Key audit matter*	*The Council's investment property represent a significant balance in the Council's financial statements and is subject to valuation. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.* *We identified a number of accounting errors within the valuation of investment properties as the final valuation for one investment property had not been correctly updated and also in the classification of assets between investment property, surplus assets and other land and buildings. These differences are not material, further detail is included in sections 2 and 4.* *Sample testing of the individual valuations of five investment properties has been undertaken by our internal valuers. This work has highlighted differences in values assessed by our internal valuers and the Council's experts relating to one retail property and one piece of development land, which have a net impact of £1.2 million. We have reported this difference as a judgemental misstatement in the summary of audit differences. There is a further projected impact of £0.8m in respect of the untested population. Management do not intend to amend the financial statements in respect of these items, we have included them within our unadjusted misstatements summary on pages 36 and 37 and we will seek management representation.* *Our work in this area is complete with no additional findings to those reported above.*

Executive Summary

Areas of audit focus		
Risk	**Risk identified**	**Findings & Conclusions**
Valuation of land and buildings	*Significant risk / Key audit matter*	*There was delays in the receipt of the financial statements and the errors noted within the records supporting property, plant and equipment.* *Our work in this area is now complete, a number of amendments were required and further information is provided on pages 21 and 22 of this report.*
Property, plant and equipment – Quality of underlying working papers	*New Significant risk / Key audit matter*	*Our testing highlighted a number of issues in relation to the disclosure of property, plant and equipment (PPE) balances, specifically relating to the underlying integrity and reliability of the PPE supporting working papers and the accuracy of information and asset descriptions included within the fixed asset register, including the translation of valuation data provided by the Council's valuers. We noted errors across all asset classes and all line items disclosed within note 13 of the financial statements. More details of this have been provided in section 7.* *After extensive work, on 16 September 2022, management presented a revised set of financial statements which agreed to an updated fixed asset register, the effect of the changes made was to reduce the net carrying value of property, plant and equipment by £64 million.* *The amount of audit work reviewing the proposed audit adjustment arising from the correction of the Council's underlying records and working papers and fixed asset register was extensive. This was reviewed in conjunction with our wider testing of property, plant and equipment valuations.* *Our work in this area is now complete, a number of amendments were required and further information is provided on pages 21 and 22 of this report.*

Executive Summary

Areas of audit focus		
Risk	**Risk identified**	**Findings & Conclusions**
Infrastructure assets	*New Significant risk*	*Given the decision by officers to wait for a statutory override which would need statutory approval before a revised and updated Code of Practice would be available, we highlighted in previous reports that it was likely that audit work on this area would not be finalised until January / February 2023, at the earliest.* *CIPFA issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets and in December 2022 DLUHC issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022) which allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil.* *The Council took the option to apply the Code adaptation and statutory instrument to their 2020/21 financial statements. They have amended the presentation of infrastructure assets, included the required disclosure note and updated the accounting policy as required by the statutory instrument.* *Our work to review this restatement and confirming the appropriateness of the in year depreciation charge is complete, a small number of minor adjustments were made to the draft disclosure presented for audit.*
Pensions liability valuation	*Inherent risk*	*We have received the IAS19 assurance letter from the auditor of Redbridge Pension Fund and this did not identify any significant issues.* *Our work in this area is complete with no issues arising.*
Group financial statements and disclosures	*Inherent risk*	*Due to a number of errors in the consolidation process in respect of the net surplus on the provision of services and the elimination process in respect of payments to Vision and group debtors and creditors, the group financial statements have been restated by management.* *Our work in this area is complete.*

Executive Summary

Areas of audit focus		
Risk	**Risk identified**	**Findings & Conclusions**
Going concern disclosure	*Inherent risk*	*Revised ISA 540, the auditing standard on going concern, now requires additional challenge from auditors on the assertions made by management in respect of going concern.* *The financial landscape for local government and the Council remains challenging and it will need to undertake a going concern assessment covering a period of at least 12 months from the expected date of final authorisation and signing of the audited financial statements.* *Management included a going concern disclosure within the draft financial statements. We have reviewed this disclosure and supporting evidence and requested some changes which have been made. We have completed our review of the updated disclosure and supporting evidence with no further issues arising.* *Our work in this area is complete and the disclosures in the financial statements have been updated to reflect the current position.*

Executive Summary

Areas of audit focus

We ask you to review these and any other matters in this report to ensure:

- *There are no other considerations or matters that could have an impact on these issues.*
- *You agree with the resolution of the issue.*
- *There are no other significant issues to be considered.*

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the committee.

Control observations

We have identified significant weaknesses in the Council's processes for the production and quality assurance of the financial statements, and with the underlying quality of working papers in relation to the maintenance of its fixed asset register. Further details are included in section 7.

Value for money

Following the completion of our risk assessment and did not identified any risk of significant weakness against the three reporting criteria we are required to consider under the National Audit Office's 2020 Code.

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.

The NAO as group auditor has confirmed that no further assurances will be required from us as component auditors in respect of the 2020/21 Whole of Government Accounts submission.

We cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2021. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report. Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Independence

Please refer to Section 10 for our update on Independence.

02 Areas of Audit Focus

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 2020/21 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?

We have reviewed the Council's accounting for the additional grants received in 2020/21 and have not identified any issues.

Our work in this area is complete and we have no issues to report in respect of covid grants.

There was a reclassification of £14.2 million between Capital Grant Income from Taxation and Non-specific Grant Income to Capital Grants Receipts in Advance to correct the accounting treatment of grants which our testing highlighted had conditions attached.

Significant risk

Misstatements due to fraud or error (management override)

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 and Ireland) 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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

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

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias including journal entries, material accounting estimates, and unusual transactions.

What did we do?

- *Identified fraud risks during the planning stages;*
- *Asked management about risks of fraud and the controls put in place to address those risks;*
- *Understood 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;*
- *Determined an appropriate strategy to address those identified risks of fraud; and*
- *Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.*

What are our conclusions?

Based on our work completed we have not identified any:

- *material weaknesses in controls or evidence of material management override;*
- *instances of inappropriate judgements being applied; or*
- *any other transactions during our audit which appear unusual or outside the normal course of business.*

Our testing in this area is complete.

Significant risk and key audit matter

Incorrect capitalisation of revenue expenditure

What is the risk?

In considering how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and capital expenditure and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

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

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

Confirming additions to property, plant and equipment and investment property has been correctly classified and meet the relevant criteria.

What did we do?

We:

- *Sample tested additions to property, plant and equipment and investment property to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.*
- *Identified the controls the Council has in place to prevent incorrect capitalisation of revenue expenditure.*
- *Considered the effectiveness of management's controls designed to address the risk.*
- *Tested year end journals which move expenditure from revenue to capital.*

What are our conclusions?

Our testing identified a number of additions where expenditure had been added to the asset value in the fixed asset register but was assessed as adding no value, resulting in a possible overstatement of the balance in the financial statements. Where significant capital expenditure is incurred the Council should review the assets on a timely basis to ensure the financial statements accurately reflect the value of the asset.

We also identified miscoding of a number of items as capital additions (PILON (pay in lieu of notice) costs, temporary accommodation expenditure, feasibility studies and the salary of a Special Educational Needs Manager), none of which were capital in nature. As a result of these errors, we were required to extend our level of testing.

We received the information on the additional samples selected for testing on 16 September 2022 and our review of this and assessment of the impact on the financial statements is now complete.

Our testing identified a number of immaterial items of expenditure which had been capitalised which were not capital in nature. The largest of these was £1.7million and related to infrastructure maintenance. Management are not proposing to amend the statement of accounts for these items. We will seek management representation as part of our closing procedures.

Significant risk and key audit matter

Valuation of investment properties

What is the risk?

The fair value of investment properties represent significant balances in the Council's financial statements and are subject to valuation changes and impairment reviews.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Council has purchased material retail properties during 2019, which represent a significant balance in the Council's financial statements, with the total balance at 31 March 2021 being £90.4 million. 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.

Following the Covid-19 outbreak in March 2020, there has been an ongoing potential for significant impact on the estimations and assumptions applied to asset valuations.

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

What did we do?

- *Considered the work performed by the Council's valuer over the Council's assets, 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 their valuation, and agreed this to what had been recorded in the fixed asset register and general ledger.*
- *Engaged our internal valuation experts to assist in our review of whether the key assumptions in relation to the valuation of investment properties are within an acceptable range based on comparative market data.*
- *Considered if there were any specific changes to assets that have occurred and that these had been communicated to the valuer.*
- *Tested accounting entries had been correctly processed in the financial statements.*
- *Ensured that appropriate disclosure had been made in the financial statements concerning the material uncertainty relating to year end valuations.*
- *Reviewed of the Council assessment of valuations carried out to assess the material accuracy of the values reported.*
- *Assessed the Council asset base by type of asset and valuation methodology, and considered the impact of Covid on assets valued on the basis of data from market transactions.*
- *Ensured the appropriate disclosure of the valuations and associated estimation uncertainty (if relevant) has been made in the financial statements.*
- *Considered and addressed the comments in EY Real Estate's review of asset valuation methodologies.*

Valuation of investment properties (continued)

What are our findings?

- *We concluded that we could rely on the work of the Council's valuer over the Council's investment property assets, and that the scope of the work performed and their professional capabilities were adequate.*
- *We were satisfied that related accounting entries had been correctly processed in the financial statements, other than errors related to the understatement of the valuation of two properties due to the 'final' valuation schedule not being used in the preparation of the financial statements (£0.189 million). This difference is not material and is below our reporting threshold. This has not been reported separately in Section 4 as it is incorporated in the overall changes in the 16 September 2022 version of the financial statements.*
- *We were satisfied that investment properties have been correctly classified, but noted that one investment property asset had been incorrectly classified as surplus and one as other land and buildings in the financial statements. These had been correctly valued as investment properties by the valuer. The total impact of this was an understatement of £0.358 million in investment properties. This difference is not material and is below our reporting threshold. This has not been reported separately in Section 4 as it is incorporated in the overall changes in the 16 September 2022 version of the financial statements.*
- *Sample testing of the individual valuations of six investment properties was undertaken by our internal valuers. This work found differences in values relating to one retail property and one piece of development land, which have a net impact of £1.2 million. We have reported this difference as a judgemental misstatement in the summary of audit differences, there is a further projected impact of £0.8m in respect of the untested population. Management do not intend to amend the financial statements in respect of these items, we have included them within our unadjusted misstatements summary on pages 36 and 37 and we will seek management representation.*

Our work in this area is complete with no additional findings to those reported above.

Significant risk and key audit matter

Valuation of other land and buildings

What is the risk?

The fair value of land and buildings represents a significant balance in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges. 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

Our testing in 2019/20 identified some significant weaknesses in the Council's processes for the maintenance of its fixed asset register as well as errors in the valuation of a number of assets, including issues in relation to schools (resulting in a £95 million adjustment to the draft financial statements due to the movement in schools valuations being posted incorrectly in the fixed asset register). We also noted issues with the valuation of hostels, with the values provided by the Council's valuer (which were not reflected in the financial statements) significantly outside the range determined by our own valuer.

As a result, for 2020/21 we increased the audit risk associated with the valuation of other land and buildings to significant.

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

What did we do?

Our work included:

- *Assessing the expertise and independence of management's valuation specialist by confirming their qualifications, experience in the sector and the terms of their engagement with the Council.*
- *Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).*
- *Engaging with EY Real Estates to review a sample of hostels to ensure prior year issues were addressed.*
- *Reviewing the annual cycle of valuations to ensure that assets were valued within a 5 year rolling programme as required by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.*
- *Identifying assets not subject to valuation in 2020/21 and applying indices to confirm that the value of these assets had not changed materially since the last valuation date in order to confirm that the remaining asset base was not materially misstated.*
- *Testing that accounting entries were correctly processed in the financial statements, including reviewing the fixed asset register to ensure its accuracy and completeness.*
- *Undertaking procedures, including engaging with our own internal specialists to satisfy ourselves that the property valuations were reasonable and materially correct, giving consideration to the asset base by type and the potential impact of Covid-19 on asset valuations.*
- *Reviewing processes to ensure the weaknesses in the prior year had been addressed.*
- *Ensuring the appropriate disclosure of the valuations and associated estimation uncertainty (if relevant) was made in the financial statements.*
- *Considering and addressing the comments in EY Real Estates review of asset valuation methodologies.*

Valuation of other land and buildings

What are our findings & conclusions? Update April 2023

Due to delays in the approval of the financial statements and the errors noted relating to the quality of the underlying documentation and working papers supporting property, plant and equipment, our work on the valuation of other land and buildings required considerable additional audit effort. A revised set of financial statements and working papers was provided to us on 16 September 2022. This provided a basis from which we could undertake our detailed valuations testing.

Schools:

The Council has 49 schools included in its PPE valuations, and we included eight of these schools within our initial sample for testing. This testing highlighted issues with four of our sample, with an error value of around £50 million. The errors identified included the use of incorrect land footprint and incorrect building footprint. We also identified increases in 2020/21 due to the inclusion of additions to the buildings which were incorrectly omitted from the prior year valuations.

As a result of these errors, we requested the Council review the remainder of the schools which highlighted differences in a further 32 schools. Management commissioned experts to measure the schools in order to fully understand and quantify the error.

IAS 8 defines prior period errors as omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements. Given the nature of the errors identified, the Council will be required to restate the prior year balances and disclose revised opening balances for 2018/19 (a third balance sheet).

Council dwellings:

Our initial review of Council dwellings highlighted a number of issues, including incorrect application of the valuation schedule to the fixed asset register, in year additions that had not been revalued, in year additions not attributed to assets and a number of misclassifications, the estimated impact of these was £22 million.

Areas of Audit Focus

Valuation of other land and buildings

What are our findings & conclusions? Update September 2023

<u>Assets not valued in year:</u>

Paragraph 4.1.2.38 of the CIPFA Code permits the Council to value their assets on a rolling programme, but only if they are completed within a short period (i.e. every 5 years) and valuations are kept up to date, i.e. that they reflect material changes in current value. In 2020/21, developed land values included in the Council's DRC valuations have increased to £10 million per hectare from £5 million per hectare in the prior year. We have reviewed the impact of this on the assets not valued in year and consider this to be circa £10.8 million. As this was material, we requested the Council update its primary statements and disclosures to ensure compliance with the Code.

<u>Overall findings:</u>

The additional work in relation to Schools, Council Dwellings and Assets not valued in year is now complete. This work highlighted further adjustments of £114 million when compared to the previous version of the financial statements and these adjustments have been made in the final version of the financial statements presented for approval.

As noted on page 23 of this report the Council has 49 schools included in its PPE valuations and our testing identified errors in the valuations relating to the use of incorrect land footprint and incorrect building footprint. The additional work undertaken resulted in the valuation of schools increasing by £129 million from the initial valuation.

As the issues were also prevalent in prior years, under IAS 8 the Council has been required to restate the prior year balances and disclose revised opening balances for 2018/19 (a third balance sheet). As a result of this work the 2019/20 opening PPE balance was increased by £104 million and the 2018/19 comparator restated by £102 million.

Significant risk and key audit matter

Property, plant and equipment – Quality of underlying working papers

What is the risk?

Our testing highlighted a number of matters in relation to the disclosure of property, plant and equipment balances, specifically relating to the accuracy and reliability of the underlying working papers, including the fixed asset register. We noted errors across all asset classes and all line items disclosed within note 13 of the draft financial statements.

Given the values involved any undetected misstatement is likely to be material to the financial statements.

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

What did we do?

We:

- *Reviewed the asset register and underlying working papers to ensure they correctly reflected asset valuations as reported by the Council's external valuers.*
- *Sample tested assets, including assets, disposals, transfers and revaluations to supporting evidence to ensure they were recorded correctly in the fixed asset register and financial statements.*
- *Reconciled the fixed asset register to the accounting entries in the financial statements, the general ledger and other systems the Council uses to record its assets.*

What are our findings & conclusions?

Our testing of the presentation and disclosures highlighted weaknesses in the systems and processes to produce the information required for property, plant and equipment resulting in material amendments to the draft financial statements. Our work highlighted errors across all asset classes and within all line items within note 13 of the financial statements. As a result of the extensive findings of the audit, the Council has undertaken significant additional work to address the issues identified and presented revised financial statements and an updated asset register on 16 September 2022.

The changes made to the financial statements resulted in an overall reduction in the value of property, plant and equipment of £52 million.

Significant risk

Property, plant and equipment – Quality of underlying working papers - What are our findings & conclusions (continued) ?

A summary of the key issues identified include:

- *Our initial testing highlighted differences between the amounts disclosed within the draft financial statements, the general ledger, the fixed asset register and the valuation reports received from the Council's valuers. Valuation reports had not been applied correctly to the fixed asset register and in some cases had not been applied at all. For Council dwellings this constituted a misstatement of £22 million in 2020/21 and £17.5 million in the prior year. The root cause of these errors were varied and not limited to the mis-posting of journals, use of incorrect data sets, valuations not being correctly recorded at a component level resulting in individual components which should be included in the overall asset value remaining in the fixed asset register and resulting in the overstatement in the balance sheet, mis-posting of the prior year agreed adjustments, or in some cases not posting agreed adjustments.*
- *Our work identified a number of issues with the accuracy of both the type of asset (for example HRA or general fund, investment property or other land and buildings) and the valuation basis (for example depreciated replacement cost, fair value, existing use value). The type and valuation basis of assets drives the values in the financial statements and it is therefore important that this information is accurate. Additionally, we identified inconsistencies between the asset lives held in the fixed asset register and those being used to calculate depreciation. For Council dwellings, we also noted that the depreciation was being based on a useful life that was not consistent with the accounting policy.*

Our work to review the adjustments as a result of the issues identified by our audit is complete, the adjustments required have been summarised within section 4 of our report. The final adjustment to PPE as a result of the errors identified increased the value of PPE in 2020/21 by £52 million.

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 £98.8 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 by officers to wait for a statutory override which would need statutory approval before a revised and updated Code of Practice would be available, we reported previously that it was likely that audit work on this area would not be finalised until January / February 2023, at the earliest.

CIPFA issued an adaptation to the Code of Practice on Local Authority Accounting to allow reporting on a net basis for infrastructure assets and in December 2022 DLUHC issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022) which allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil. The Council took the option to apply the Code adaptation and statutory instrument to their 2020/21 financial statements. They have amended the presentation of infrastructure assets, included the required disclosure note and updated the accounting policy as required by the statutory instrument.

Our work to review this restatement and confirming the appropriateness of the in year depreciation charge is complete, a small number of minor adjustments were made to the draft disclosure presented for audit.

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Pension liability valuation *The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £383.8 million increasing to £511.8 million at 31 March 2021.* *The information disclosed is based on the IAS 19 report issued to the Council by its actuary.* *Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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.*	*We received the IAS19 assurance letter from the auditor of Redbridge Pension Fund and this did not identify any significant issues.* *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 accounting standards and the CIPFA Accounting Code of Practice.* *ISA540 (revised) requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we undertook alternate procedures to create an auditor's estimate. We employed the services of an EY Pensions specialist to review the Council's IAS19 reports and run a parallel actuarial model which was compared to that produced by the Council's actuary.* *We reviewed the EY Pensions specialist's report and concluded that there are no material differences in the balances calculated by the actuary and the balance calculated by the EY Pensions specialist.* *Our work in this area is complete with no issues arising.*

Other areas of audit focus

What is the risk/area of focus?	What did we do?
Group financial statements and disclosures *The Council currently prepares group financial statements to consolidate the financial statements of Vision Redbridge Culture and Leisure (VRCL) into the Council's single entity financial statements.* *We required the Council to prepare an updated group boundary assessment which considered whether the activities of any newly-formed entities would be material to the users of the Council's financial statements from both a qualitative and quantitative perspective.*	*We:* • *Reviewed the Council's group boundary assessment, taking into account both qualitative and quantitative perspectives set out in the CIPFA guidance 'Accounting for Collaborations'.* • *Reviewed the associated disclosures to ensure these are in line with CIPFA Code of Practice and associated guidance.* • *Tested group consolidation adjustments.* *We agreed with the Council's assessment that no further consolidation of any new entities was required in 2020/21 and that the disclosures in the financial statements were appropriate.* *We identified a number of errors in the consolidation process in respect of the net surplus on the provision of services and the elimination process in respect of payments to Vision and group debtors and creditors. The group draft financial statements were updated to address these matters. Additional information is provided in section 4 of this report.*

Other areas of audit focus

What is the risk/area of focus?	What did we do?
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* *Based on the work we have undertaken, we were satisfied that the Council has sufficient levels of reserves and cash for the next 12 months and therefore that it is appropriate for the financial statements to be prepared on a going concern basis and that there is no material uncertainty which requires disclosure.* *Given the delay in the completion of the audit and the issues of our audit opinion, we required the Council to update its cash flow forecast and associated going concern disclosure within the financial statements to the opinion date.* *Our work in this area is complete and the disclosures in the financial statements have been updated to reflect the current position.*

03 Audit Report

Draft audit report

Our draft opinion on the financial statements will be issued separately.

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.

Our work in relation to the outstanding areas listed above is now complete. A summary of the impact of the further adjustments is recorded below and in accounts format on slides 38 to 40.

Summary of adjusted differences

The draft financial statements were authorised for issue by the Section 151 Officer on 20 August 2021, this was after the statutory deadline for publication as defined in the Accounts and Audit Regulations of 31 July 2021. Despite the draft financial statements being certified as true and fair by the Section 15 Officer, our work has identified over sixty numerical and accounting differences in the draft financial statements which management has chosen to adjust, furthermore, there were also a similar number of misstatements in disclosures, again these have been adjusted by management. These misstatements have arisen as a result of poor quality working papers and governance processes over the production of the financial statements. The volume and magnitude of the errors identified has resulted in a significant increase in the amount of audit work required. In addition, we have had to consider the impact of these errors on our overall testing strategy and materiality. A summary of the adjusted differences is detailed below:

- *The vast majority of differences identified related to property, plant and equipment, investment property and surplus asset valuations which highlighted some significant weaknesses in the Council’s processes for the maintenance of its fixed asset register. Further details are included in Section 7. The revised financial statements presented for audit on 16 September 2022 resulted in a reduction of £62 million in the value of property, plant and equipment disclosed in note 13.*

  Our testing of PPE balances is now complete and our work identified further material adjustments in relation to the items detailed on slides 23 and 24. The effect of these adjustments increased PPE by £114 million from the version received on 16 September 2022. This represents an overall increase in PPE from the original version of the financial statements presented for audit of £52 million.

Audit Differences

Summary of adjusted differences (continued)

- *Sample testing of the valuations of five investment properties undertaken by our internal valuers found differences in values relating to one retail property and one piece of development land, which have a net impact of £1.2 million. This is a judgmental misstatement and we will consider the impact on the remainder of the untested population following discussion with management.*
- *Our work on the group financial statements highlighted a number of errors in the consolidation process in respect of the net surplus on the provision of services and the elimination process in respect of payments to Vision and group debtors and creditors. As a result, the group financial statements have been restated by management.*
- *Management has also updated note 7b 'expenditure and income analysed by category' to correct a number of mapping errors. Whilst the adjustments to income and expenditure were significant there was no overall impact on the deficit on the provision of services. We also reviewed the restatement of the CIES as a result of a change in underlying internal reporting structures which we had not previously been made aware of.*
- *Restatement of financial instruments disclosures which required amendment to ensure consistency with the primary statements and to agree to underlying accounting records.*

There were also a large number of disclosure differences which management have agreed to correct, with the main ones being:

- *The classification of government grants between Capital Grant Income from Taxation and Non-specific Grant Income and grants receipts in advance;*
- *Reclassification of Better Care fund grant income of £9.4m from taxation and non specific grant income to CIES People Income;*
- *A number omissions from the narrative statement, including the basis of preparation of the financial statements and inconsistencies within the financial statements; and*
- *Various changes were required to officers remuneration disclosures including, but not limited to, the differences in the pay bands of staff when compared to underlying payroll records.*

Other more minor differences were also identified impacting:

- *collection fund disclosures;*
- *members allowances;*
- *contingent liabilities;*
- *provisions;*
    - *Housing tenant debtors;*
    - *Pension disclosure notes; and*
    - *HRA disclosures.*

Audit Differences (continued)

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Governance & Audit Committee and provided within the Letter of Representation:

- *Investment Property - Understatement of two properties due to the 'final' valuation schedule not being used in the preparation of the financial statements with a value of £0.2 million;*
- *Infrastructure Asset additions overstatement: Our testing identified a number of immaterial items of expenditure which had been capitalised which were not capital in nature. The largest of these was £1.7 million and related to infrastructure maintenance;*
- *Public Realm Split and reclassification: Our testing identified that costs of £1.4 million relating to Ilford Public Realm which had been incorrectly classified as Vehicles, Plant and Equipment;*
- *Application of incorrect indices to school lodges: Our testing identified that school lodge values are not subject to annual updating via an appropriate index in years between formal valuations, we estimate the impact of this to be £1.1 million;*
- *Valuation not applied to the fixed asset register: The valuation for the Town hall had not been applied to the fixed asset register and therefore also the statement of accounts, this results in an overstatement of other land & building of £1.7 million*
- *Reclassification of IT equipment: Our testing identified that £0.6 million of expenditure relating to the 'Smart Programme' was incorrectly classified as Other Land and Buildings rather than Vehicles, Plant and Equipment;*
- *Land verge included in the valuation of Woodford County Girls school: Our testing of the valuation of this school identified the Valuer to have included an area of Highways verge within the valuation that was outside of the school's curtilage which increased the valuation attributable by £0.6 million;*
- *Judgemental difference in valuation of investment properties: Our testing of the Council's valuation by way of the use of our expert identified a potential overstatement of £1.7 million in the valuation of 153-217a Manford Way. This difference was then extrapolated over other like assets to give a further potential overstatement of £0.8 million;*
- *Judgemental difference in valuation of Chingford Road: Our testing of the Council's valuation by way of the use of our expert identified a potential understatement of £0.5 million in the valuation of Chingford Road;*
- *Judgemental difference in valuation of Lynton house: Our testing of the Council's valuation by way of the use of our expert identified a potential overstatement of £3.9 million in the valuation of Lynton House;*
- *Judgemental difference re RTB's: Our testing highlighted a number of Council Dwellings where the sale was "highly probable" as at the balance sheet date and therefore should have been reclassified within Assets Held for Sale and revalued, the impact of this is estimated to be £0.2 million; and*
- *Projected difference in valuation of investment properties: As noted above this represents the extrapolated difference in relation to the valuation attributable to investment properties.*

We have summarised the impact of these uncorrected misstatements on the financial statements on the next slide.

Audit Differences (continued)

Summary of unadjusted differences

	CIES DR	CIES CR	BS DR	BS CR	Unusable Reserves DR	Unusable Reserves CR
	£000	£000	£000	£000		
Investment Property understatement		(189)	189		189	(189)
Infrastructure Asset additions overstatement	1,760			(1,760)		
Public Realm split and reclassification			1,495	(1,495)		
Application of incorrect indices to school lodges	1,130	(1,130)	1,130			(1,130)
Town hall valuation not applied to the FAR and therefore the SoA	1,823	(1,823)		(1,823)	1,823	
Reclassification of IT equipment			624	(624)		
Land verge included in valuation of Woodford County Girls school	585			(585)	585	(585)
Judgemental difference in valuation of investment properties	1,713			(1,713)	1,713	(1,713)
Judgemental difference in valuation of Chingford Road		(494)	494		494	(494)
Judgemental difference in valuation of Lynton house	3,853	(3,853)		(3,853)	3,853	
Judgemental difference re RTBs		(213)	213		213	(213)
Projected difference in valuation of investment properties	814			(814)	814	(814)
Total	11,678	(7,702)	4,145	(12,667)	9,684	(5,138)
Net Impact	3,976			(8,522)	4,546	

Audit Differences - Accounts amendments – Balance Sheet

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Property, Plant & Equipment	1,700,038	-162,610	1,537,428	114,455	1,651,883	-48,155
Infrastructure Assets	0	98,758	98,758	0	98,758	98,758
Investment Property	90,373	378	90,751	0	90,751	378
Intangible Assets	3,814	1,506	5,320	0	5,320	1,506
Long Term Investments	18,053	0	18,053	0	18,053	0
Long Term Debtors	2,142	0	2,142	0	2,142	0
Long Term Assets	1,814,420	-61,968	1,752,452	114,455	1,866,907	52,487
Assets Held for Sale	10,574	1,483	12,057	0	12,057	1,483
Short Term Investments	146,460	0	146,460	0	146,460	0
Inventories	223	-1	222	0	222	-1
Short Term Debtors	64,098	0	64,098	0	64,098	0
Cash and Cash Equivalents	22,840	0	22,840	0	22,840	0
Current Assets	244,195	1,482	245,677	0	245,677	1,482
Short Term Borrowing	-3,836	0	-3,836	0	-3,836	0
Short Term Creditors	-126,272	0	-126,272	0	-126,272	0
Provisions	-1,901	0	-1,901	0	-1,901	0
Capital Grants Receipts in advance	-7,141	0	-7,141	-7,012	-14,153	-7,012
Revenue Grants Receipts in advance	0	0	0	-7,141	-7,141	-7,141
Current Liabilities	-139,150	0	-139,150	-14,153	-153,303	-14,153
Provisions	-8,410	0	-8,410	0	-8,410	0
Long term Borrowing	-347,023	0	-347,023	0	-347,023	0
Other Long-Term Liabilities	-522,148	0	-522,148	0	-522,148	0
Long Term Liabilities	-877,581	0	-877,581	0	-877,581	0
Net Assets	1,041,884	-60,486	981,398	100,302	1,081,700	39,816
Usable Reserves	218,615	0	218,615	-14,152	204,463	-14,152
Unusable Reserves	823,269	-60,487	762,782	114,455	877,237	53,968
Total Reserves	1,041,884	-60,487	981,397	100,303	1,081,700	39,816

Audit Differences - Accounts amendments – Comprehensive Income & Expenditure

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Communities	40,480	8,918	49,398	0	49,398	8,918
People	120,584	4,552	125,136	-13,934	111,202	-9,382
Regen & Culture	17,003	4,041	21,044	0	21,044	4,041
Resources	15,095	0	15,095	0	15,095	0
Strategy	7,632	0	7,632	0	7,632	0
Corporate	9,021	0	9,021	0	9,021	0
Local Authority Housing (HRA)	-1,162	13,162	12,000	0	12,000	13,162
Cost of Services	208,653	30,673	239,326	-13,934	225,392	16,739
Other operating Expenditure	35,004	-5,284	29,720	2,626	32,346	-2,658
Financing & Investment Inc & Exp	23,325	161	23,486	0	23,486	161
taxation & non-specific grant income	-270,495	0	-270,495	23,578	-246,917	23,578
Deficit on prov of services	-3,513	25,550	22,037	12,270	34,307	37,820
Surplus on reval of Non Current Assets	-346,308	34,937	-311,371	-8,826	-320,197	26,111
Re-measurement of net defined benefit liability	108,932	0	108,932	0	108,932	0
Other Comprehensive income & expenditure	-237,376	34,937	-202,439	-8,826	-211,265	26,111
Total Comprehnsive Inc & Exp	-240,889	60,487	-180,402	3,444	-176,958	63,931

Audit Differences - Accounts amendments – Movement in Reserves

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
General Fund	126,192	0	126,192	0	126,192	0
HRA	17,284	0	17,284	0	17,284	0
Capital Receipts	10,521	0	10,521	0	10,521	0
Major Repairs	0	0	0	0	0	0
Capital Grants	64,619	0	64,619	-14,153	50,466	-14,153
Total Usable	218,616	0	218,616	-14,153	204,463	-14,153
Unusable Reserves	823,269	-60,487	762,782	114,455	877,237	53,968
Total Reserves	1,041,885	-60,487	981,398	100,302	1,081,700	39,815

05 Value for Money

Value for money

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

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 its financial statements, the Council 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 Council 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 Governance and Assurance Committee in July 2021, we reported that we were yet to complete our value for money (VFM) risk assessment.

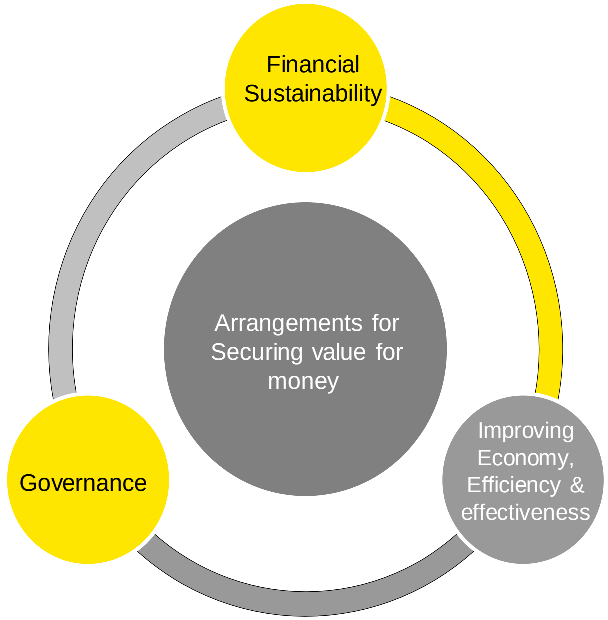
We subsequently completed our planning risk assessment and did not identify any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have revisited our assessment on completion of the audit of the financial statements. We gave careful consideration to the issues noted in the body of this report regarding the preparation of the financial statements, their impact and if they represented a significant weakness in the Council's value for money arrangements under the NAO's 2020 Code. We concluded that they did not represent a significant weakness given they were limited to a specific area of the financial statements (PPE) and that they did not represent a pervasive weakness.

We also considered items that we were aware of at the date of our opinion that may have indicated weaknesses within 2020/21. In 2020/21 the Head of Internal Audit issued a reasonable assurance opinion in their Head of Internal Audit Annual Report. Subsequent to the audit year, in 2021/22 and 2022/23, limited assurance opinions were issued, noting weaknesses in some key areas for the Council. Management has set out the key themes in the 2020/21 annual governance statement and identified actions in relation to these, it is imperative that these recommendations are implemented in a timely manner.

As a result, we have completed our planned VFM procedures.

We intend to issue the VFM commentary as part of issuing the Auditor's Annual 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 Statement of Accounts for the year 2020/21 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. *Financial information in the Council's Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.*

Whole of Government Accounts
The NAO as group auditor has confirmed that no further assurances will be required from us as component auditors in respect of the 2020/21 Whole of Government Accounts submission.

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 Council 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 Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have not identified any relevant issues.*

Other reporting 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 Authority'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;* • *Related parties;* • *External confirmations;* • *Going concern; and* • *Consideration of laws and regulations.* *We have documented the issues identified and delays encountered throughout this report.*

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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. As we 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 our audit highlighted.

The 2020/21 financial year was challenging for the Council, as they responded to the Covid-19 pandemic. During production of the 2020/21 financial statements and supporting working papers, both the Chief Accountant and Capital Accountant roles were filled by temporary members of staff. These temporary members of staff left in August and October 2021, respectively, at relatively short notice. This led to significant deficiencies in the design and operation of internal controls which have resulted in a proportionally high number of changes being required to the draft financial statements and weaknesses in the quality, completeness and accuracy of the underlying working papers supporting the property, plant and equipment disclosures. These weaknesses have led to material adjustments to the draft financial statements and delays in the preparation of the financial statements and completion of the audit. We have summarised the key issues below:

- *Timeline for production of the draft financial statements: The draft financial statements were certified as being true and fair and authorised for issue by the Section 151 Officer on 20 August 2021, this was after the statutory deadline for publication as defined in the Accounts and Audit Regulations of 31 July 2021. This was also later than the agreed timetable for receipt for audit of 23 July 2021 which resulted in us having to redeploy staff at short notice and has had a significant impact on the timely completion of our work for 2020/21.*
- *Accuracy of the draft financial statements and governance arrangements for review: Whilst we had been assured of the governance process for quality control of the financial statements our initial high level review highlighted a number of issues within the draft financial statements that were authorised for issue. The key issues identified were:*
  - *there was a material reconciling item within note 13, property plant and equipment;*
  - *the statements omitted the basis of preparation;*
  - *note 7b, 'Expenditure and Income Analysed by Category', did not reconcile to the CIES and were amended to correct underlying mapping errors; and*
  - *we had not been made aware of the restatement of the CIES as a result of a change in underlying internal reporting structures.*

  Subsequently our testing highlighted further matters, including:
  - *further material errors in the valuation and accounting for property, plant and equipment and investment property;*
  - *group financial statement disclosures due to errors on consolidation and within the eliminations process; and*
  - *financial instruments disclosures required amendment to ensure consistency with the primary statements and to agree to underlying accounting records.*

Assessment of Control Environment

Financial controls

- *Weaknesses in the systems and processes to produce the information required for property, plant and equipment (PPE) disclosures, impacting the completeness and accuracy of the underlying working papers, resulted in material amendments to the draft financial statements. Our work highlighted errors across all asset classes and within all line items of note 13 of the financial statements and, given the nature of these balances, had a material impact on the financial statements. As a result of the extensive findings of the audit, the Council undertook significant additional work to address the issues identified and presented revised financial statements and an updated asset register on 16 September 2022. The changes made to the financial statements resulted in a reduction in the value of property, plant and equipment of £62m million. A summary of the issues identified is as follows:*
    - *Underlying integrity and reliability of PPE information: Our initial testing highlighted differences between the amounts disclosed within the draft financial statements, the general ledger, the fixed asset register and the valuation reports received from the Council's valuers. Valuation reports had not been applied correctly to the fixed asset register and in some cases had not been applied at all. For Council dwellings, this constituted a misstatement of £22 million in 2020/21 and £17.5 million in the prior year. The root cause of these errors were varied and not limited to the mis-posting of journals, use of incorrect data sets, valuations not being undertaken at the component level resulting in individual components which should be included in the overall asset value remaining in the fixed asset register and resulting in the overstatement in the balance sheet, mis-posting of the prior year agreed adjustments, or in some cases not posting agreed adjustments.*
    - *Accuracy of information and asset descriptions in the asset register: Our work identified a number of issues with the accuracy of both the type of asset (for example HRA or general fund, investment property or other land and buildings) and the valuation basis (for example depreciated replacement cost, fair value, existing use value). The type and valuation basis of assets drives the values in the financial statements and it is therefore important that this information is accurate. Additionally, we identified inconsistencies between the asset lives held in the fixed asset register and those being used to calculate depreciation. For Council dwellings, we also noted that the depreciation was being based on a useful life that was not consistent with the accounting policy.*
    - *Capital expenditure not adding value: Our testing identified a number of additions where expenditure had been added to the asset value in the fixed asset register but was assessed as adding no value, resulting in a possible overstatement of the balance in the financial statements. Where significant capital expenditure is incurred the Council should review the assets on a timely basis to ensure the financial statements accurately reflect the value of the asset. We also identified miscoding of a number of items as capital additions (PILON (pay in lieu of notice) costs, temporary accommodation expenditure, feasibility studies and the salary of a Special Educational Needs Manager), none of which were capital in nature. As a result of these errors, we were required to extend our level of testing. We received the information on the additional samples selected for testing on 16 September 2022.*

Assessment of Control Environment

Financial controls

- *Our review of the revised financial statements and updated asset register received on 16 September 2022 highlighted a number of further issues with regards to the value of the property, plant and equipment disclosed. These issues resulted in a further adjustments of £114 million from the September 2022 version of the financial statements and an overall increase of £52 million in the value of PPE compared to that in the original financial statements presented for audit. A summary of the further issues identified included :*
    - *Schools: The Council has 49 schools included in its PPE valuations, and we included eight of these schools within our initial sample for testing. This testing highlighted issues with four of our sample. The errors identified included the use of incorrect land footprint and incorrect building footprint. We also identified historical additions to buildings which had been incorrectly omitted from the prior year valuations. As a result of these errors IAS 8 required the Council to restate the prior year balances and disclose revised opening balances for 2018/19 (a third balance sheet). The impact of this errors was to increase the value attributable to schools by circa £129 million in 2020/21 and circa £100 million in both 2019/20 and 2018/19.*
    - *Council dwellings: Our review of Council dwellings highlighted a number of issues, including incorrect application of the valuation schedule to the fixed asset register, in year additions that had not been revalued, in year additions not attributed to assets and a number of misclassifications, the impact of these was £23 million.*
    - *Assets not valued in year: Paragraph 4.1.2.38 of the CIPFA Code permits the Council to value their assets on a rolling programme, but only if they are completed within a short period (i.e. every 5 years) and valuations are kept up to date, i.e. that they reflect material changes in current value. In 2020/21, developed land values included in the Council's DRC valuations increased to £10 million per hectare from £5 million per hectare in the prior year. The Council did not assess if these changes in developed land values impacted the unvalued assets. Our review highlighted that this would increase the value of these assets by £10.8 million. As this is material, we requested the Council updates its primary statements and disclosures to ensure compliance with the Code.*

The issues noted above resulted in significant delays in the preparation of reliable financial statements and the subsequent audit process and significant additional audit work was required to reconcile the various information sources and establishing the true nature of the Council's asset base. This also took significant time for Council officers to address. As a priority the Council should consider each of the findings included in this report and use this along with the discussions held to review and improve processes and controls in relation to the management of its asset base to ensure any errors ar prevented or detected before the production of the financial statements. Additionally, we would recommend that the Council seeks to strengthen the integration between finance, property and the external valuers.

In respect of infrastructure assets we also would highlight that the amendments to Section 4.1 of the Code include a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied up to and including the Code applicable to the 2024/25 financial year. As this is only a temporary relief we recommend the Council utilise the time available to review the underlying records it holds for infrastructure assets to be able to support the gross book value and accumulated depreciation balances going forward.

Related Party Transactions - The CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 requires the Authority to disclose transactions with related parties, the provision of this disclosure is based on IAS 24 Related Party Disclosures. To collect this information the Authority requires senior officers and members of the Authority to submit an annual declaration. For the 2020/21 financial year a number of Councillors did not return their completed related party return. Alternative audit procedures were undertaken to ensure appropriate disclosures were made in the financial statements with no issues noted.

08 Independence

Independence

Introduction

At the Governance and Assurance meeting on 29 July 2021, we highlighted the communications that we are required to make at the planning stage and at the conclusion of the audit, as well as during the course of the audit.

In this report, we provide disclosure of the relationships (including the provision of non-audit services) which bear on our integrity, objectivity and independence, the related threats and safeguards, as well as details of our fees and the other required confirmations.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and the Governance and Assurance Committee consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance and Assurance Committee.

This report is intended solely for the information and use of the Governance and Assurance Committee and management and should not be used for any other purpose.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, senior management and its affiliates, including all services provided by us and our network to your Council, 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.

Confirmations

We are not aware of any inconsistencies between the Council's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

Independence

Services provided by Ernst & Young

The following slide includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed below has been provided on a contingent fee basis. 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.

We confirm that we have not undertaken any non-audit work in 2020/21. The non-audit work in 2019/20, was in respect of the Council's non-index linked bond. We adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

Other Communications

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 ended 30 June 2022 and can be found here: EY UK 2022 Transparency Report | EY UK

Fees

	Final proposed fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee – Code work	£110,493	£110,493	£110,493
Final 2019/20 scale fee variation as determined by PSAA (See Note 1)	-	-	£121,897
Scale fee increase proposed (see Note 2)	£177,470	£203,719	-
Scale fee variation proposed re specific 2020/21 issues (See Note 3)	£157,938	TBC	-
Code of Audit Practice 2020 and updated auditing and accounting standards 2020/21 (see note 4)	£28,115	-	-
Total audit fees	£474,016	TBC	£232,390
Total other non-audit services (See Note 5)	-	-	£63,000
Total fees	£474,016	TBC	£295,390

Note 1 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work required to meet our responsibilities, and in order to meet regulatory and compliance audit requirements not present in the market at the bid to PSAA, we provided an estimate of the additional recurrent fee that will be incurred in 2019/20 and in future years of £162,975. We also estimated an additional non-recurrent fee of £50,366 relating to specific risk based fee variations of the Council in 2019/20. PSAA ultimately determined that an additional 2019/20 fee of £121,897 should be paid by the Council.

Note 2 – As communicated above, we are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge. This in combination, is requiring us to revisit with PSAA the basis on which the scale fee was set. This results in a proposed increase in the scale fee of £201,065.

Note 3 - We have quantified the impact of the specific 2020/21 issues to be £157,938. This includes the extensive work undertaken on property, plant and equipment including the additional inputs required from EYRE. This will continue to increase until audit completion and we will provide an update accordingly.

Note 4 - The impact on audit fees of the new requirements in the Code of Audit Practice 2020 and new or updated auditing and accounting standards for 2020/21 audits as set out in the additional information for 2020/21 audit fees issued by PSAA in August 2021. This paper sets out agreed fee ranges for the new requirements. For the Council we determined this to be £18,760 for VFM and £9,355 in relation to the new estimates standard ISA540. This does not cover the additional work in relation to additional pensions assurance.

Note 5 - We undertook non-audit work in 2019/20. The work was in relation to the Council's issue of the index linked bond.

09 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 from the prior year.

Appendix B

Summary of communications

Date	Nature	Summary
Throughout the year	*Meetings, calls and emails.*	*Both Partners and Manager have been in regular contact with the Section 151 Officer and the finance team in respect of the audit risks, accounts closedown and the audit approach. A number of additional meetings have been held to discuss the progress on producing the draft financial statements,*
Throughout the audit	*Daily meetings*	*On identifying the issues with the quality of the underlying records supporting the property, plant and equipment disclosures included within this report the Audit Senior held daily meetings with the Strategic Capital and Projects Accountant from March 2022 to July 2022.*
January 2022 – June 2022	*Weekly meetings*	*The Manager and Audit Senior have been in regular contact with Operational Director of Finance and the Chief Accountant, holding weekly liaison meetings for the period January 2022 to June 2022.*
June 2022 to date	*Regular meetings*	*The Manager and Audit Senior have continued to have regular meetings with the Operational Director of Finance and other key finance staff as required throughout the period after the main audit visit had been paused. Meeting with the Partners and Section 151 Officer have also been held during this period.*
Ad hoc	*Meeting*	*The Partners and Manager have met regularly with the Section 151 Officer on a regular basis throughout the year to discuss audit matters up to the date of issue of this report.*
29 July 2021, November 2022 and April 2023	*Governance and Assurance Committee*	*The Partners attended those meetings of the Governance and Assurance Committee noted throughout the financial year and to the date of issue of this report, to present the Plan and this report. Specific reports issued and communications with the committee are detailed in Appendix C.*

In addition to the above specific meetings and reports, the audit team met with the Council management team many times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Governance & Assurance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. 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 Governance and Assurance 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.	Audit Planning Report – July 2021.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – July 2021.
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	Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.

Appendix C

		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* • *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 Planning Report – July 2021.* *Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*
Misstatements	• *Uncorrected misstatements and their effect on our audit opinion* • *The effect of uncorrected misstatements related to prior periods* • *A request that any uncorrected misstatement be corrected* • *Material misstatements corrected by management*	*Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*
Subsequent events	• *Asking the Governance and Assurance Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements.*	*Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*
Fraud	• *Asking the Governance and Assurance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council* • *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 Council, any identified or suspected fraud involving:* a. *Management;* b. *Employees who have significant roles in internal control; or* c. *Others where the fraud results in a material misstatement in the financial statements.* • *The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected* • *Any other matters related to fraud, relevant to Governance and Assurance Committee responsibility.*	*Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*

Appendix C

		Our Reporting to you
Required communications	*What is reported?*	*When and where*
Related parties	*Significant matters arising during the audit in connection with the Authority'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 Council*	*Audit Planning Report – July 2021.*
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* *Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.*	*Audit Planning Report – July 2021.* *Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*

Appendix C

		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.*	*All confirmations requested have been received.*
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 Governance and Assurance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance and Assurance Committee may be aware of*	*We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.*
Significant deficiencies in internal controls identified during the audit	• *Significant deficiencies in internal controls identified during the audit.*	*Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*
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 Planning Report – July 2021.* *Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*

Appendix C

		Our Reporting to you
Required communications	*What is reported?*	*When and where*
Written representations we request from management and/or those charged with governance	• *Written representations we request from management and/or those charged with governance*	*Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*
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*	*Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*
Auditors report	• *Any circumstances identified that affect the form and content of our auditor's report*	*Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*
Fee Reporting	• *Breakdown of fee information when the audit planning report is agreed* • *Breakdown of fee information at the completion of the audit* • *Any non-audit work*	*Audit Planning Report – July 2021.* *Provisional Audit Results Report – November 2022, updated April 2023, Final September 2023.*
Annual Auditors Report	• *Summary of our audit work and findings for 2020/21* • *Commentary on VFM arrangements in place during 2020/21*	*Annual Auditors Report.*

Appendix D

Management representation letter - draft

Our draft management representation letter will be issued separately.

Appendix E

Financial statement amendments – Note 13 – Total PPE

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Cost/Valuation at 1/4/2020	1,269,383	0	1,269,383	103,078	1,372,461	103,078
Adjsutments	-1,057	280	-777	-2	-779	278
Additions	63,432	2,860	66,292	0	66,292	2,860
Revaluations in the Reval Reserve	325,876	-13,185	312,691	7,508	320,199	-5,677
Revalautions in the surplus/deficit on provn services	-6,083	-48,437	-54,520	5,997	-48,523	-42,440
Derecognition/disposals	-19,595	-12,044	-31,639	-3,338	-34,977	-15,382
Reclassification	-759	-3,533	-4,292	-1	-4,293	-3,534
Other	5,822	-5,822	0	0	0	-5,822
Cost/Valaution at 31/3/2021	1,637,019	-79,881	1,557,138	113,242	1,670,380	33,361
Acc'd Depreciation at 1/4/2020	36,195	0	36,195	-668	35,527	-668
Adjustments	13	4	17	-1	16	3
Depreciation charge	20,794	-1	20,793	2,018	22,811	2,017
Accumulated write back on Reval Reserve	-15,676	-3,415	-19,091	-1,746	-20,837	-5,161
Accumulated write back on surplus/deficit on provn services	-2,644	2,644	0	0	0	2,644
Derecognition/disposals	-31	-18,269	-18,300	-713	-19,013	-18,982
Other	-30	126	96	-102	-6	24
Acc'd Depreciation at 31/3/2021	38,621	-18,911	19,710	-1,212	18,498	-20,123
Net Book Value 31/3/2021	1,598,398	-60,970	1,537,428	114,454	1,651,882	53,484

Appendix E

Financial statement amendments – Note 13 - Council Dwellings

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Cost/Valuation at 1/4/2020	292,092	0	292,092	0	292,092	0
Adjsutments	0	280	280	0	280	280
Additions	21,233	-116	21,117	0	21,117	-116
Revaluations in the Reval Reserve	21,860	9,619	31,479	-43,097	-11,618	-33,478
Revalautions in the surplus/deficit on provn services	-7,308	-34,029	-41,337	43,098	1,761	9,069
Derecognition/disposals	-1,921	-1,022	-2,943	0	-2,943	-1,022
Reclassification	7,628	2,320	9,948	-1	9,947	2,319
Other	0	0	0	0	0	0
Cost/Valaution at 31/3/2021	333,584	-22,948	310,636	0	310,636	-22,948
Acc'd Depreciation at 1/4/2020	16	0	16	0	16	0
Adjustments	0	0	0	0	0	0
Depreciation charge	5,169	0	5,169	-9	5,160	-9
Accumulated write back on Reval Reserve	-4,275	-864	-5,139	0	-5,139	-864
Accumulated write back on surplus/deficit on provn services	-684	684	0	0	0	684
Derecognition/disposals	-31	-6	-37	0	-37	-6
Other	0	-9	-9	9	0	0
Acc'd Depreciation at 31/3/2021	195	-195	0	0	0	-195
Net Book Value 31/3/2021	333,389	-22,753	310,636	0	310,636	-22,753

Financial statement amendments – Note 13 – Other Land & Building

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Cost/Valuation at 1/4/2020	884,517	0	884,517	103,078	987,595	103,078
Adjsutments	3	0	3	-2	1	-2
Additions	16,203	2,813	19,016	1	19,017	2,814
Revaluations in the Reval Reserve	301,464	-22,984	278,480	52,013	330,493	29,029
Revalautions in the surplus/deficit on provn services	1,448	-13,022	-11,574	-38,509	-50,083	-51,531
Derecognition/disposals	0	-2,139	-2,139	-3,338	-5,477	-5,477
Reclassification	6,150	3,879	10,029	0	10,029	3,879
Other	5,822	-5,822	0	0	0	-5,822
Cost/Valaution at 31/3/2021	1,215,607	-37,275	1,178,332	113,243	1,291,575	75,968
Acc'd Depreciation at 1/4/2020	6,338	0	6,338	-668	5,670	-668
Adjustments	-5	6	1	-1	0	5
Depreciation charge	11,555	0	11,555	1,915	13,470	1,915
Accumulated write back on Reval Reserve	-11,234	-2,331	-13,565	-1,745	-15,310	-4,076
Accumulated write back on surplus/deficit on provn services	-1,758	1,758	0	0	0	1,758
Derecognition/disposals	0	-286	-286	-713	-999	-999
Other	-374	6	-368	0	-368	6
Acc'd Depreciation at 31/3/2021	4,522	-847	3,675	-1,212	2,463	-2,059
Net Book Value 31/3/2021	1,211,085	-36,428	1,174,657	114,455	1,289,112	78,027

Financial statement amendments – Note 13 – Vehicles, Plant & Equipment

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Cost/Valuation at 1/4/2020	33,464	0	33,464	0	33,464	0
Adjsutments	-2	0	-2	0	-2	0
Additions	8,940	1	8,941	0	8,941	1
Revaluations in the Reval Reserve	0	0	0	0	0	0
Revalautions in the surplus/deficit on provn services	0	0	0	0	0	0
Derecognition/disposals	0	-15,048	-15,048	0	-15,048	-15,048
Reclassification	0	0	0	0	0	0
Other	0	0	0	0	0	0
Cost/Valaution at 31/3/2021	42,402	-15,047	27,355	0	27,355	-15,047
Acc'd Depreciation at 1/4/2020	21,032	0	21,032	0	21,032	0
Adjustments	1	0	1	0	1	0
Depreciation charge	3,476	0	3,476	113	3,589	113
Accumulated write back on Reval Reserve	0	0	0	0	0	0
Accumulated write back on surplus/deficit on provn services	0	0	0	0	0	0
Derecognition/disposals	0	-14,792	-14,792	0	-14,792	-14,792
Other	0	113	113	-113		0
Acc'd Depreciation at 31/3/2021	24,509	-14,679	9,830	0	9,830	-14,679
Net Book Value 31/3/2021	17,893	-368	17,525	0	17,525	-368

Appendix E

Financial statement amendments – Note 13 – Community Assets

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Cost/Valuation at 1/4/2020	11,921	0	11,921	0	11,921	0
Adjsutments	0	0	0	0	0	0
Additions	0	0	0	0	0	0
Revaluations in the Reval Reserve	0	0	0	0	0	0
Revalautions in the surplus/deficit on provn services	0	0	0	0	0	0
Derecognition/disposals	0	-3,172	-3,172	0	-3,172	-3,172
Reclassification	0	0	0	0	0	0
Other	0	0	0	0	0	0
Cost/Valaution at 31/3/2021	11,921	-3,172	8,749	0	8,749	-3,172
Acc'd Depreciation at 1/4/2020	8,798	0	8,798	0	8,798	0
Adjustments	4	-1	3	0	3	-1
Depreciation charge	577	-1	576	1	577	0
Accumulated write back on Reval Reserve	0	0	0	0	0	0
Accumulated write back on surplus/deficit on provn services	0	0	0	0	0	0
Derecognition/disposals	0	-3,172	-3,172	0	-3,172	-3,172
Other	0	0	0	0	0	0
Acc'd Depreciation at 31/3/2021	9,379	-3,174	6,205	1	6,206	-3,173
Net Book Value 31/3/2021	2,542	2	2,544	-1	2,543	1

Appendix E

Financial statement amendments – Note 13 – Surplus Assets

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Cost/Valuation at 1/4/2020	9,552	0	9,552	0	9,552	0
Adjsutments	-1,057	0	-1,057	0	-1,057	0
Additions	0	0	0	0	0	0
Revaluations in the Reval Reserve	2,552	180	2,732	-1,408	1,324	-1,228
Revalautions in the surplus/deficit on provn services	-223	-1,386	-1,609	1,408	-201	22
Derecognition/disposals	0	-323	-323	0	-323	-323
Reclassification	4,613	931	5,544	0	5,544	931
Other	0	0	0	0	0	0
Cost/Valaution at 31/3/2021	15,437	-598	14,839	0	14,839	-598
Acc'd Depreciation at 1/4/2020	11	0	11	0	11	0
Adjustments	13	-1	12	0	12	-1
Depreciation charge	17	0	17	-2	15	-2
Accumulated write back on Reval Reserve	-167	-220	-387	0	-387	-220
Accumulated write back on surplus/deficit on provn services	-202	202	0	0	0	202
Derecognition/disposals	0	-13	-13	0	-13	-13
Other	344	16	360	2	362	18
Acc'd Depreciation at 31/3/2021	16	-16	0	0	0	-16
Net Book Value 31/3/2021	15,421	-582	14,839	0	14,839	-582

Appendix E

Financial statement amendments – Note 13 – AUC

	Orignal	Amendment	Revised 16/9/2022 version	Amendment	Revised 3/8/2023 version	Total amendment
	£k	£k	£k	£k	£k	£k
Cost/Valuation at 1/4/2020	37,837	0	37,837	0	37,837	0
Adjsutments	-1	0	-1	0	-1	0
Additions	17,056	162	17,218	-1	17,217	161
Revaluations in the Reval Reserve	0	0	0	0	0	0
Revalautions in the surplus/deficit on provn services	0	0	0	0	0	0
Derecognition/disposals	-17,674	9,660	-8,014	0	-8,014	9,660
Reclassification	-19,150	-10,663	-29,813	0	-29,813	-10,663
Other	0	0	0	0	0	0
Cost/Valaution at 31/3/2021	18,068	-841	17,227	-1	17,226	-842
Acc'd Depreciation at 1/4/2020	0	0	0	0	0	0
Adjustments	0	0	0	0	0	0
Depreciation charge	0	0	0	0	0	0
Accumulated write back on Reval Reserve	0	0	0	0	0	0
Accumulated write back on surplus/deficit on provn services	0	0	0	0	0	0
Derecognition/disposals	0	0	0	0	0	0
Other	0	0	0	0	0	0
Acc'd Depreciation at 31/3/2021	0	0	0	0	0	0
Net Book Value 31/3/2021	18,068	-841	17,227	-1	17,226	-842

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