London Borough of Richmond upon Thames

Year ended 31 March 2021

February 2022

Building a better working world

4 February 2022

London Borough of Richmond upon Thames
Civic Centre,
44 York Street,
Twickenham,
TW1 3BZ

Dear Committee Members
2020/21 Audit Results report

We are pleased to attach our Audit Results Report, summarising our findings from the 2020/21 audit.

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 London Borough of Richmond upon Thames accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit, Standards & Statutory Accounts Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Helen Thompson

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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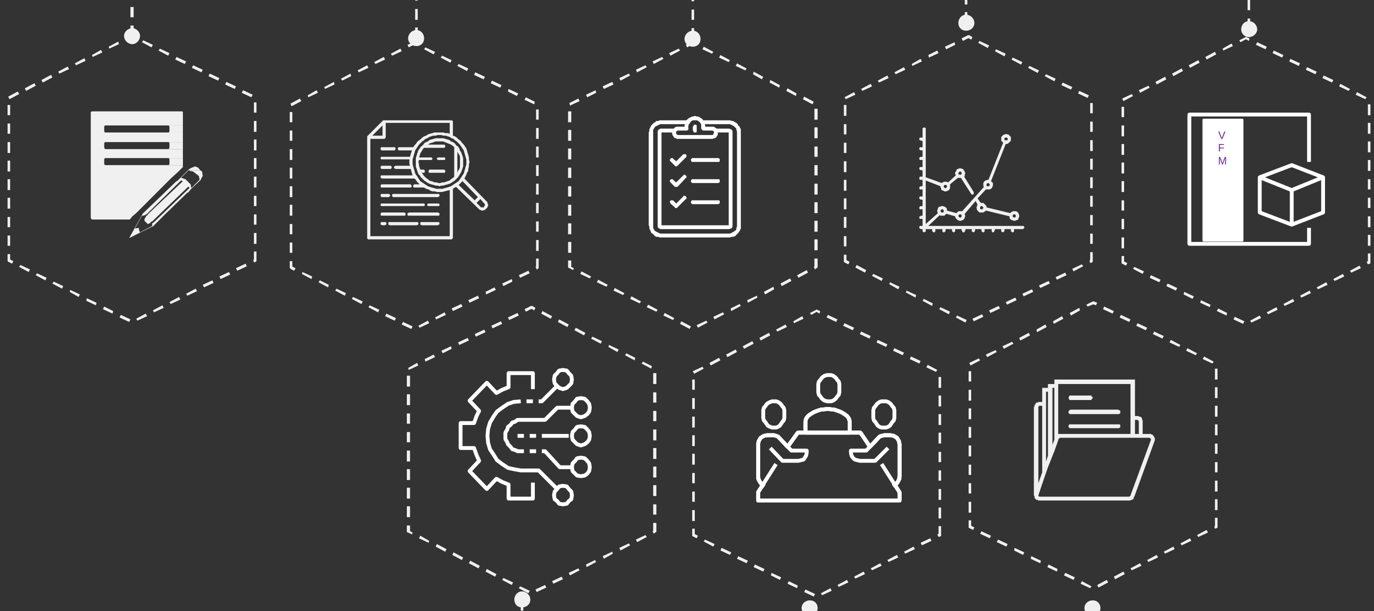


Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement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

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

This report is made solely to the Audit, Standards & Statutory Accounts Committee and management of the London Borough of Richmond-upon-Thames in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit, Standards & Statutory Accounts Committee, and management of the London Borough of Richmond upon Thames those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit, Standards and Statutory Accounts Committee and management of the London Borough of Richmond upon Thames 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 Outline Audit Planning Report presented at the March 2021 Audit, Standards & Statutory Accounts Committee, and the detailed Audit Planning Report circulated in September, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Changes in materiality: We updated our planning materiality assessment using the draft consolidated financial statements. Based on our materiality measure of gross revenue expenditure, our overall materiality assessment reduced to £8.39 million (Audit Planning Report – £9.067 million). This resulted in updated performance materiality, at 50% of overall materiality, of £4.195 million, and an updated threshold for reporting misstatements of £0.419 million.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Additional audit procedures as a result of Covid-19

There was one further change in the entity and regulatory environment as a result of Covid-19 that did not result in an additional risk, but had the following impact on our audit strategy:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity 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

Status of the audit

Our audit work in respect of the Council's opinion is complete.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit – Value for Money

In the Audit Planning Report circulated to the Audit Committee on 3 September 2021, we reported that we had completed our value for money (VFM) risk assessment and not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary as part of issuing the Auditors Annual Report.

Executive Summary

Audit differences

These are both currently unadjusted within the financial statements.

The following unadjusted misstatements have been identified:

1) Revenue Expenditure Funded from Capital Under Statute (REFCUS): we sample tested the REFCUS balance of £6.295 million disclosed within the Council's accounts. Of the sample of 6 items initially tested, 2 were incorrect and should not have been classified as REFCUS. We carried out further testing of an additional sample of 6 items of which 4 were incorrect. The Council then elected to test all items within the population over £100,000 (6 items) and 3 further items were found to be incorrect. We have extrapolated these errors across the untested REFCUS balance which results in an extrapolated difference of £3.494 million. As the error of £3.494 million is extrapolated, we would not request the Council to amend the financial statements. In addition, we identified a further £600,000 error noted below which has been adjusted.

2) Community Infrastructure Levy (CIL) Income: Our testing of CIL income identified late recognition of CIL income, whereby accrued income which should have been recognised in previous years was included in the 2020/21 financial statements. The total value of this uncorrected misstatement was extrapolated across the untested balance which suggests income and debtors are overstated by £2.471 million.

3) Richmond Housing Partnership for Right to Buy Sales Income: We identified an error which arose due to income being received in June/July relating to the preceding financial year. We found that the income received in June/July 2020 related to sales that occurred in 2019/20. However, no accrual had been made in 2019/20 for the income and it appears to have been recorded historically in the year of receipt rather than the year the income relates to. The total value of this uncorrected misstatement is £624k.

Management has corrected the following misstatements:

1) We undertook detailed testing of a sample of 68 assets valued on a DRC basis. This identified factual errors totalling a net of £218k, but with an absolute error of £5 million across 5 assets. These arose from:

- 2 assets where an incorrect remaining deferred period was used when calculating the land value.
- 2 assets where an element (e.g. part of building or block) had been omitted from the financial statements, but was included on the valuation report.
- 1 asset where an incorrect gross internal area had been used in the calculation of the valuation.

The financial statements have been adjusted in relation to these items. We undertook a 'stand-back' assessment to assess whether similar errors may also exist within the untested population of £8.9 million. The resulting figure was below our reporting threshold.

2) We tested a sample of assets valued on an EuV/FV basis. This found that the valuations for Craneford Way Depot and the Civic Tip were understated by £4.48m. This has been corrected in the final version of the financial statements.

3) Our testing of REFCUS identified £600,000 of loans made in 2020/21 which had been incorrectly shown as capital expenditure. This item has been corrected.

4) We identified one social care grant which should have been classified as non-ringfenced rather than credited to services. This resulted in amendment to the financial statements of £3.469 million to reclassify the grant.

5) We identified a misclassification of COVID-19 Additional Funding of £8.233 million as Grants Credited to Services instead of Non-Ringfenced Grants. This resulted in amendment to move this income to Non-Ringfenced Grants.

6) Our testing of Cash identified the Council had incorrectly classified schools debtors and creditors totalling £367k as Cash & Cash Equivalents. The appropriate accounting entries have been made to ensure these are properly reflected in the Debtors and Creditors disclosures.

Minor disclosure changes have been made throughout the financial statements in response to auditor queries.

Executive Summary

Other reporting issues

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

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. The 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process.

We have no other matters to report.

Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial report of the London Borough of Richmond-upon-Thames. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	We have not identified any evidence that management has overridden controls in order to prepare fraudulent financial statement balances or postings within the financial statements from the work completed to date.
Risk of incorrect capitalisation of revenue expenditure	We have not identified any evidence of manipulation of expenditure through incorrect capitalisation of revenue expenditure. We have however identified incorrect classification of capital expenditure as Revenue Expenditure Funded from Capital Under Statute (REFCUS) totalling £3.94 million, of which £600k has been corrected. As our testing confirmed that these items were appropriate to capitalise but did not meet the criteria to be classified as REFCUS we are satisfied there is no material fraud arising.

Significant Risk	Findings & Conclusions
Valuation of investment property and land and buildings - valued under Existing Use Value (EuV)/Fair Value (FV)	We employed the use of our own expert to support the work in relation to the valuation of land, buildings and investment properties valued on an EuV or FV basis. This found that the valuations for Craneford Way Depot and the Civic Tip were understated by £4.48m. This has been corrected in the final version of the financial statements. Further detail is included in Section 2.

Executive Summary

Areas of audit focus (continued)

Area of audit focus / Inherent risk	Findings & Conclusions
Valuation of land and buildings in PPE valued under Depreciated Replacement Cost (DRC) (area of audit focus)	We employed the use of our own expert to support the work in relation to the valuation of land, buildings valued on a DRC basis. Further detail is included in Section 2.
Pension liability valuation (area of audit focus)	We tested the Council's pension liability valuation and assessed the work of the Council's actuary, Barnett Waddingham. We are satisfied that the pension liability and associated balances within the financial statements are not materially misstated. We have undertaken additional audit procedures in responses to the updated ISA540 regarding accounting estimates. These have included the production of a parallel IAS19 report by an EY pensions expert which was then compared to the report prepared by Barnett Waddingham. No material differences were identified from this process.
Going concern and events after the balance sheet (area of audit focus)	We are satisfied that the Council's use of the going concern assumption is appropriate. We reviewed the Council's disclosures within the financial statements and have no matters to report.
Accounting for Covid-19 Grant Income (area of audit focus)	We reviewed the accounting for Covid-19 grant income. We identified a misclassification of COVID-19 Additional Funding of £8.233 million as Grants Credited to Services instead of Non-Ringfenced Grants. This resulted in amendment to move this income to Non-Ringfenced Grants. Following adjustment of this item, we were satisfied there was no material misstatement in the accounting for Covid-19 grants.
Expected credit loss calculation (area of audit focus)	We are satisfied that the Council's calculation of the expected credit loss model for the impairment of receivables has been undertaken on a reasonable basis. We have reviewed and challenged the judgements taken and are satisfied that the resulting balance is not materially misstated.

Executive Summary

Areas of audit focus

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit, Standards and Statutory Accounts Committee or Management.

Independence

We have no independence issues to highlight.

Please refer to Section 7 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
As identified in ISA (UK 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.

What did we do?

In response to this risk, we:

- Identified fraud risks during the planning stages, which reflect the significant fraud risk recognised in this report (the risk of incorrect capitalisation of expenditure).
- Inquired of 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 which is reflected in the significant risks documented on this file.
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
    - Testing journals at year-end to ensure there are no unexpected or unusual postings. This included searching for inappropriate journals posted by senior officers; journals with certain narrative descriptions which may allude to override; journals that do not balance to nil; and material journals posted at year end. We were satisfied that those journals tested did not contain evidence of management override.
    - Undertaking a detailed review of accounting estimates for evidence of bias (such as the valuation of land, buildings and investment property valuation, IAS 19 pension balances and the calculation for the Expected Credit Loss model of the bad debt impairment (ECL)) and substantively testing unusual or unexpected transactions. No evidence of management override was identified, and no unusual transaction have been identified.

What judgements are we focused on?

We focused on aspects of the financial statements which are open to estimation and judgment, which would facilitate management overriding controls:

- Journal entries subject to specific narrative descriptors, posted at certain times of the financial year or by certain individuals, and journals which exceed certain values;
- Material accounting estimates, such as the valuation of property, plant and equipment and investment property, IAS 19 pension balances and the ECL; and
- Unusual transactions anywhere in the financial statements.

What are our conclusions?

Our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Council's financial position, or that management had overridden control.

We have completed our journals testing. We are satisfied that journal entries had been posted properly and for genuine business reasons.

We have reviewed material estimates. Our work in these areas resulted in amendment to the financial statements relating to PPE valuation, but no indication of fraud was identified.

There were no unusual transactions identified.

Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition through inappropriate capitalisation of revenue expenditure

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 believe the risk of manipulation is most likely to manifest in the incorrect capitalisation of revenue expenditure through either inappropriate additions to Property, Plant and Equipment (PPE) and Investment Property (IP) or incorrect classification of expenditure as Revenue Expenditure Funded from Capital Under Statute (REFCUS), as there is an incentive to reduce expenditure which is funded from Council Tax.

2020/21 PPE Additions: £13.697 million

2020/21 Investment Property Additions: £0

2020/21 REFCUS: £6.295 million

What judgements are we focused on?

We focused on the Council's judgements to classify expenditure as either revenue or capital in nature. We tested a sample of items to confirm that the Council's judgement was supported by sufficient evidence and was genuinely capital in nature.

What did we do?

In response to this risk, we:

- Tested a sample of PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. We also ensured the transaction was supported by sufficient evidence to verify its value and the period it related to. We note that no testing was carried out on IP additions as the value was nil.
- Tested a sample of REFCUS, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. As with PPE additions, we also ensured these items were supported by sufficient evidence to verify the value and period it related to.
- Identified and tested significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. This provided assurance that the transactions were adequate, supported by evidence and valid.

Significant risk

What are our conclusions?
We have found no evidence of incorrect capitalisation of revenue expenditure in either PPE or IP additions. We were satisfied that the transactions tested were supported by evidence which confirmed the valuation, nature of the expenditure, period to which it related to and confirmed that it was appropriately capitalised. We sample tested the REFCUS balance of £6.295 million disclosed within the Council's accounts. Of the sample of 6 items initially tested, 2 were incorrect and should not have been classified as REFCUS. We carried out further testing of an additional sample of 6 items of which 4 were incorrect. The Council then elected to test all items within the population over £100,000 (6 items) and 3 further items were found to be incorrect. We have extrapolated these errors across the untested REFCUS balance which results in an extrapolated difference of £3.494 million. As the error of £3.494m is extrapolated, we would not request the Council to amend the financial statements. In addition, we identified a further £600,000 error which has been adjusted. The Council has recognised the volume of errors arising within the REFCUS balance is not acceptable and is planning to undertake additional work in advance of the 2021/22 financial statements to ensure the level of error is not repeated in future years. Our review of journal items provided assurance that the transactions posted were adequate, supported by evidence and valid. To do this, we tested journals which debit PPE/IP / REFCUS and credit Expense (all expense codes except capital codes) over a certain value.

Significant risk

Valuation of investment property and land and buildings - valued under Existing Use Value (EUV)/Fair Value (FV)

What is the risk?

The valuation of land and buildings and investment properties represent material figures within the Council's financial statements. The valuation of these assets is reliant upon expert valuations based on information provided by the Council, which includes a number of judgements and assumptions.

Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements. In the 2019/20 audit we identified a number of adjusted and unadjusted errors in valuation.

Land and building assets valued on an EuV basis totalled £85.238 million in 2020/21.

Investment property assets valued on an FV basis totalled £14.577m in 2020/21.

What judgements are we focused on?

We focused on those assumptions that directly impact the valuation of these assets – such as the use of information based on areas of the economy under stress (such as retail), location factors, useful lives and estimation of year on year valuation movements.

What did we do?

In response to this risk, we undertook the following procedures:

- Considered the work performed by the Council's valuer (Wilks, Head & Eve), and confirmed that the scope of the work performed is adequate, they had the appropriate professional capabilities to complete the work and the results of their work is in line with our expectations.
- Challenged the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists. This included considering significant or unusual movements in valuation and investments in areas of the economy under stress, such as retail. Additional work has been completed in this area, including detailed review of a sample of assets by our own valuer.
- Sample tested key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre).
- Confirmed that the valuation was undertaken to ensure all assets required to be valued in line with the Council's 5 year rolling programme had been completed, and that all investment property had been revalued in year as required by the Code.

Significant risk

What did we do? (cont)

- Confirmed the valuation was completed on up-to-date information regarding each asset such that any specific changes to assets that have occurred in year had been communicated to the valuer.
- Confirmed that the entire asset base had been revalued by WHE in 2020/21, so there was no risk of material misstatement arising from the lack of valuation of assets.
- Reviewed and challenged where necessary any changes to useful economic lives as a result of the most recent valuation.
- Tested the accounting entries posted via journal to ensure they have been correctly processed in the financial statements.

What are our conclusions?

We have completed the planned work above.

In total, we tested 41 PPE assets valued at EuV and 7 investment property assets valued at FV, of these 8 were reviewed by EYRE.

Our findings are:

- A number of minor differences were identified by the audit team. However, none were individually or cumulatively above our reporting threshold, confirming the valuation of the assets held on this basis are materially correct.
- EYRE identified an incorrect lease value had been used by WHE in their valuation of King Street, Twickenham. This overstated the value of the asset by £468,000. WHE have provided an updated valuation following EYRE comments, which reduces the difference to £152,000. We have extrapolated the original difference across the remaining properties of a similar type (on the basis that similar assets would not have been adjusted) and concluded the total difference was below our reporting threshold of £419,000.
- EYRE challenged the assumptions in relation to the ground lease for Ambassador House which led to an understatement of £742,500. WHE provided a revised valuation following EYRE comments, which reduces the difference to £108,000. We extrapolated the original difference across the remaining properties of a similar type and concluded the total difference was below our reporting threshold of £419,000.
- EYRE also challenged the valuation of the Council's depot at Craneford Way and the Civic Tip, This found that the valuations were understated by £4.48m. This has been corrected in the final version of the financial statements.

Our response to areas of audit focus

Further details on procedures/work performed

What is the risk/area of focus?	What did we do?
Valuation of land and buildings in PPE under Depreciated Replacement Cost (DRC) The value of land and buildings in PPE valued under DRC also represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a lesser degree of material judgemental inputs and apply estimation techniques are required to calculate these balances held in the balance sheet. Although there is a risk for land and buildings under DRC due to the specialised nature of these assets and insufficient availability of market-based evidence to assist the valuation, these assets are inherently not subject to material uncertainty arising due to market conditions. At 31 March 2021 the value of land and buildings in PPE under DRC was £759.919 million.	We: • Considered the work performed by the Council's valuer (Wilks, Head & Eve), and confirmed that the scope of the work performed is adequate, they had the appropriate professional capabilities to complete the work and the results of their work is in line with our expectations. • Challenged the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists. This included considering significant or unusual movements in valuation. Additional work has been completed in this area, including detailed review of a sample of assets by our own valuer. • Sample tested key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre). • Confirmed that the valuation was undertaken to ensure all assets required to be valued in line with the Council's 5 year rolling programme had been completed. • Confirmed the valuation was completed on up-to-date information regarding each asset such that any specific changes to assets that have occurred in year had been communicated to the valuer. • Assessed those assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated. • Reviewed and challenged where necessary any changes to useful economic lives as a result of the most recent valuation. • Tested the accounting entries posted via journal to ensure they have been correctly processed in the financial statements.

What are our findings and conclusion?

Our conclusions are set out on the next page.

Our response to areas of audit focus

Further details on procedures/work performed

What are our findings and conclusion?

We undertook detailed testing of a sample of 68 assets valued on a DRC basis. There were factual errors totalling a net of £218k, but with an absolute error of £5 million across 5 assets. These arose from:

- 2 assets where an incorrect remaining deferred period was used when calculating the land value.
- 2 assets where an element (e.g. part of building or block) had been omitted from the accounts, but was included on the valuation report.
- 1 asset where an incorrect gross internal area had been used in the calculation of the valuation.

Adjustment has been made to these items within the financial statements. We undertook a 'stand-back' assessment to assess whether these errors may also exist within the untested population of £8.9 million. The resulting figure was below our reporting threshold.

Our response to areas of audit focus

Further details on procedures/work performed

What is the risk/area of focus?	What did we do?
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the 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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We: • Obtained assurances over the information supplied to the actuary in relation to the Council and were satisfied they had been properly prepared and therefore represented a sound base for the actuaries work; • Assessed the work of the Pension Fund actuary, including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team. No concerns which may result in material misstatement were identified; and • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our findings and conclusion?

We were satisfied there was no evidence of material misstatement arising from the work completed above.

In response to the revised requirements of ISA540, the auditing standard on accounting estimates, we amended our audit approach based on procedures to evaluate management's process. The revised standard 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 modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. 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 Barnett Waddingham (BW). This confirmed there was no material misstatement arising from those estimation procedures undertaken by BW.

Our response to areas of audit focus

Further details on procedures/work performed

What is the risk/area of focus?	What did we do?
Going concern compliance with ISA 570 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. In light of the continued impact of Covid-19 there is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.	We: • Challenged management's identification of events or conditions impacting going concern. • Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Reviewed the Council's cashflow forecast covering the to the period March 2023, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow. • Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, to allow us to draw our conclusions on going concern. • Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

What are our findings and conclusion?

We were satisfied the use of the going concern assumption remains appropriate for the Council, and it has access to sufficient working capital to support its operations for a period of at least 12 months from the date of our audit report.

We are also satisfied that the final version of the disclosure in the financial statements is appropriate.

Our response to areas of audit focus

Further details on procedures/work performed

What is the risk/area of focus?	What did we do?
Accounting for Covid-19 related grant funding The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.	We considered the Council's judgement on material grants received in relation to whether it is acting as: • Agent, where it has determined that it is acting as an intermediary; or • Principal, where the Council has determined that it is acting on its own behalf. We undertook substantive procedures to ensure that grants have been recognised in the financial statements in accordance with scheme rules and code requirements.

What are our findings and conclusion?

We identified a misclassification of COVID-19 Additional Funding of £8.233 million as Grants Credited to Services instead of Non-Ringfenced Grants. This resulted in amendment to move this income to Non-Ringfenced Grants. Following this adjustment, we are satisfied that the Council's treatment of Covid-19 related grant funding was not materially misstated, and had been recognised in the financial statements in accordance with scheme rules.

Our response to areas of audit focus

Further details on procedures/work performed

What is the risk/area of focus?	What did we do?
Expected credit loss calculation The Council's calculation of the expected credit loss model for impairment of receivables contains judgement. Understanding and reviewing the process and judgements made for this manual calculation and journal entry is key to ensuring it is not materially misstated. A revised auditing standard has been issued in respect of accounting estimates, which has led to an increase in focus on this accounting entry.	We obtained an understanding of the Council's methodology for preparing the expected credit loss model calculation for the impairment of receivables. We also corroborated and challenged those assumptions made. We reperformed the calculation, reconciling the underlying data to appropriate support.

What are our findings and conclusion?

We were satisfied the Council's calculation of the expected credit loss model for impairment of receivables is not materially misstated.

Group Audit

Further details on procedures/work performed

What is the risk/area of focus?	What did we do?
Group audit and accounting The Council prepares a Group Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet which consolidate the accounting entries for both Orleans House Trust and Achieving for Children. This is an area of focus as we are reliant upon the auditor or Achieving for Children to provide assurance over the subsidiary financial statement balances. We also recognise the risk of incorrectly accounting for the consolidation process.	• Assurance over the Orleans House Trust and Achieving for Children joint venture was obtained following completion of a detailed work programme to cover the specific scope of each audit. • For Orleans House Trust, in order to respond to the significant risk identified in relation to valuation of land and buildings, we reviewed the valuation of the asset, rather than requesting the auditors of the Trust to perform specified procedures on our behalf. This was considered to be the most efficient manner to achieve the required assurance and we are satisfied there is no evidence of material misstatement arising from the valuation. Those audit procedures undertaken are the same as those set out in response to our significant risks in respect of valuation of the Council's assets. • The Achieving for Children's joint venture included a material value of liabilities. We issued a detailed set of group instructions to Grant Thornton as auditors of AfC. We obtained working papers which responded to these group instructions and reviewed the audit procedures, sampling and conclusions reached by Grant Thornton as part of their audit in order to ensure sufficient assurance was obtained. We were satisfied that the work of Grant Thornton was sufficient to support our audit procedures in respect of the group accounting. • We scoped both of these subsidiaries as specific scope engagements and undertook audit procedures to ensure the accounting entries had been properly prepared as part of the consolidation. We also review the work of the Achieving for Children (AfC) auditor to ensure we have sufficient assurance over consolidated balances.

What are our findings and conclusion?

We are satisfied that sufficient assurance has been obtained to support those balances consolidated into the Group CIES and Balance Sheet, and that the Council has correctly accounted for the consolidation exercise.

03 Audit Report

Audit report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LONDON BOROUGH OF RICHMOND UPON THAMES

Our opinion on the financial statements

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LONDON BOROUGH OF RICHMOND UPON THAMES

Opinion

We have audited the financial statements of London Borough of Richmond upon Thames for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority and Group Comprehensive Income and Expenditure Statement; Authority and Group Balance Sheet; Authority and Group Movement in Reserves Statement, Authority and Group Cash Flow Statement, and the related notes 1 to 47; the Collection Fund and the related note 1.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Richmond upon Thames and Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and the Comptroller and Auditor General’s AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Resources’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority’s ability to continue as a going concern for a period of 17 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Resources with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority’s ability to continue as a going concern.

Other information

The other information comprises the information included in the Accounts for the year 2020/21, other than the financial statements and our auditor’s report thereon. The Director of Resources is responsible for the other information contained within the Accounts for the year 2020/21.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Audit Report

Our opinion on the financial statements

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

• in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;

• we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

• we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

• we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;

• we issue an advisory notice under Section 29 of the Local Audit and A Accountability Act 2014;

• we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;

• we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Director of Resources

As explained more fully in the Statement of Responsibilities set out on page 11, the Director of Resources is responsible for the preparation of the Accounts for the year 2020/21, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

Audit Report

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Education Act 2002 and School Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948)
- Business Rate Supplements Act 2009,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how the London Borough of Richmond upon Thames is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and

Our opinion on the financial statements

we corroborated this through our reading of the Authority's committee minutes and through enquiry of employees to confirm Authority's policies. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified misstatements due to fraud and error and a risk of fraud in revenue and expenditure recognition through inappropriate capitalisation of revenue expenditure to be our fraud risks.

- To address our fraud risk around misstatements due to fraud and error, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.
- To address our fraud risk of risk of fraud in revenue and expenditure recognition through inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether the London Borough of Richmond upon Thames had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the London Borough of Richmond upon Thames put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the London Borough of Richmond upon Thames had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Audit Report

Our opinion on the financial statements

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

We will report the outcome of our work on the Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

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 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of the London Borough of Richmond upon Thames, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Richmond upon Thames and the London Borough of Richmond upon Thames' members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Southampton

04 Audit Differences

Audit Differences

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

Summary of adjusted and unadjusted differences

The following unadjusted misstatements have been identified:

1) Revenue Expenditure Funded from Capital Under Statute (REFCUS): we sample tested the REFCUS balance of £6.295 million disclosed within the Council’s accounts. Of the sample of 6 items initially tested, 2 were incorrect and should not have been classified as REFCUS. We carried out further testing of an additional sample of 6 items of which 4 were incorrect. The Council then elected to test all items within the population over £100,000 (6 items) and 3 further items were found to be incorrect. We have extrapolated these errors across the untested REFCUS balance which results in an extrapolated difference of £3.494 million. As the error of £3.494m is extrapolated, we would not request the Council to amend the financial statements. In addition, we identified a further £600,000 error noted below which has been adjusted.

2) Community Infrastructure Levy (CIL) Income: Our testing of CIL income recognised late recognition of CIL income, whereby accrued income which should have been recognised in previous years was included in the 2020/21 financial statements. The total value of this uncorrected misstatement was extrapolated across the untested balance which suggests income and debtors are overstated by £2.471 million.

3) Richmond Housing Partnership for Right to Buy Sales Income: We identified an error which arose as income is received in June/July relating to the preceding financial year. We found that the income received in June/July 2020 related to sales that occurred in 2019/20. However, no accrual had been made in 2019/20 for the income and it appears to have been recorded historically in the year of receipt rather than the year the income relates to. The total value of this uncorrected misstatement is £624k.

Management has corrected the following misstatements:

1) We undertook detailed testing of a sample of 68 assets valued on a DRC basis. There were factual errors totalling a net of £218k, but with an absolute error of £5 million across 5 assets. These arose from:

- 2 assets where an incorrect remaining deferred period was used when calculating the land value.
- 2 assets where an element (e.g. part of building or block) had been omitted from the financial statements, but was included on the valuation report.
- 1 asset where an incorrect gross internal area had been used in the calculation of the valuation.

Adjustment has been made to these items within the financial statements. We undertook a ‘stand-back’ assessment to assess whether these errors may also exist within the untested population of £8.9 million. The resulting figure was below our reporting threshold.

2) We tested a sample of assets valued on an EuV/FV basis. This found that the valuations for Craneford Way Depot and the Civic Tip were understated by £4.48m. This has been corrected in the final version of the financial statements.

3) Our testing of Revenue Expenditure Funded from Capital Under Statute (REFCUS) identified £600,000 of loans made in 2020/21 which had been incorrectly shown as capital expenditure. This item has been corrected.

4) We identified one social care grant which should have been classified as non-ringfenced rather than credited to services. This resulted in amendment to the financial statements of £3.469 million to reclassify the grant.

Audit Differences (Contd)

Summary of adjusted and unadjusted differences

5) We identified a misclassification of COVID-19 Additional Funding of £8.233 million as Grants Credited to Services instead of Non-Ringfenced Grants. This resulted in amendment to move this income to Non-Ringfenced Grants.

6) Our testing of Cash identified the Council had incorrectly classified schools debtors and creditors totalling £367k as Cash & Cash Equivalents. The appropriate accounting entries have been made to ensure these are properly reflected in the Debtors and Creditors disclosures.

Minor disclosure changes have been made throughout the financial statements in response to auditor queries.

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.

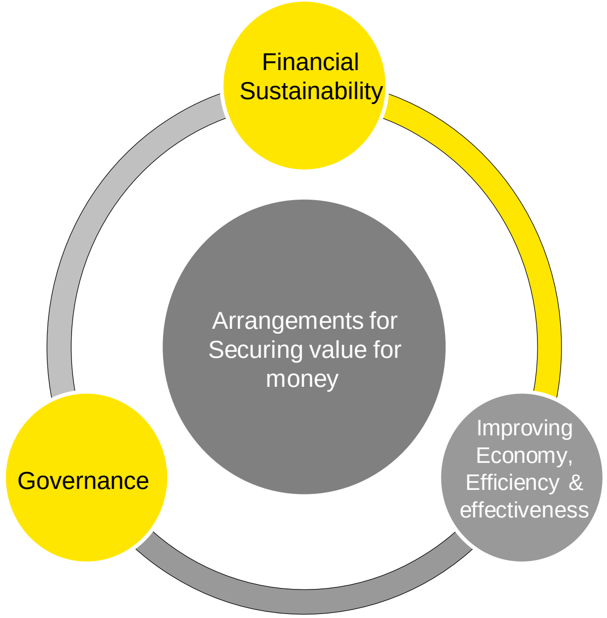
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its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

We have previously reported to the Committee the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had not identified any risks. We have revisited our risk assessment and have not identified any additional risks.

Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary as part of issuing the Auditors Annual Report..



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 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 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
Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the NAO. We have not yet been able to perform the procedures required by the NAO on the WGA submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Therefore the 2020/21 WGA component data is not available for auditors to review. Group Audit Instructions and the timetable for 2020/21 will follow any changes HMT make to the DCT and process.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We did not identify any issues which required us to issue a report in the public interest.

Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no matters to report.

07 Independence

Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees due for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

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 non-audit work other than the certification of the Council’s Housing Benefit Claim.

EY Transparency Report 2021

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

EY UK 2021 Transparency Report | EY UK

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Proposed fee 2020/21	Scale fee 2020/21	Final Proposed Fee 2019/20
	£	£	£
PSAA Scale Fee	70,952	70,952	70,952
2019/20 fee variation determined by PSAA (Note 1)	-	-	39,653
2020/21 PSAA expected additional minimal core fees (Note 2): • VFM • ISA 540 accounting estimates	TBC	10,000 to 19,000 4,400	
2020/21 fee variation (Note 3)	TBC	-	-
Total fees	TBC	85,352 to 94,352	110,605
Non-Audit Work – Housing Benefit Certification	TBC	-	23,522

We have updated the table opposite to estimate the fee based on the work completed at the point of issuing this report. These figures could change, and need to be agreed with officers and the PSAA. Any further additional fees (over and above VFM and ISA540) for 2020/21 will be communicated to the Director of Resources following the completion of the audit.

(1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £70,105. We also submitted an in-year fee variation of £24,987. PSAA has determined the total fee variation across both elements for 2019/20 as £39,653. We expect similar costs in nature in 2020/21 and subsequent years. However, PSAA has stated that this will need to be determined each year.

(2) In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. PSAA determined a minimum range for VFM (£10k-£19k) and a minimum amount for ISA540 (£4.4k).

(3) In our Audit Planning Report for 2020/21, we included an estimated additional fee of £19,000. Now we have completed the audit, we will assess the level of scale fee variation required. This additional fee discussed with officers before being put forward for PSAA approval.

08 Appendices

Audit approach update

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

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

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

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

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

Appendix B

Summary of communications

Date	Nature	Summary
Every month between April and July, then every 2 weeks	Meeting	The Associate Partner and Senior Manager met with the Director of Resources, the Assistant Director and the Chief Accountant throughout the year to discuss audit planning, risks, developments and issues as they arose.
Once per week through audit visits	Meeting	The Senior Manager met with the Chief Accountant and Head of Accountancy at least once per week throughout our audit visits to pick up any high level issues, sticking points or areas of challenge.
Twice per week through audit visit	Meeting	The Senior Manager and the key members of the audit team met with the Chief Accountant, Head of Accountancy and various members of their team at least twice weekly to discuss a log of queries and issues. This included detailed discussion of testing items, progress and issued being identified.
15th March 2021 28th October 2021	Audit, Standards & Statutory Accounts Committee	The Associate Partner and Senior Manager met the Audit Committee to present the Outline Audit Plan and Provisional Audit Results Report.
Ad hoc through completion of audit	Meeting	We met with key members of the finance team, including the Director of Resources, the Assistant Director and the Chief Accountant, while final audit procedures were being completed.

Required communications with the Audit, Standards & Statutory Accounts Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit, Standards & Statutory Accounts 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.	Outline audit planning report (March 2021) and full audit planning report (circulated in September 2021)
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Outline audit planning report (March 2021) and full audit planning report (circulated in September 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 (October 2021) Final audit results report (Feb 2022)

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the audit committee include: • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant	Outline audit planning report (March 2021) and full audit planning report (circulated in September 2021) and Provisional Audit results report (October 2021) Final audit results report (Feb 2022)

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 related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements	Provisional Audit results report (October 2021) Final audit results report (Feb 2022)
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Provisional Audit results report (October 2021) Final audit results report (Feb 2022)
Subsequent events	• Enquiry of the Audit, Standards & Statutory Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Provisional Audit results report (October 2021) Final audit results report (Feb 2022)

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	• Enquiries of the Audit, Standards & Statutory Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit, Standards & Statutory Accounts Committee responsibility.	Provisional Audit results report (October 2021) Final audit results report (Feb 2022)
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Provisional Audit results report (October 2021) Final audit results report (Feb 2022)
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	Outline audit planning report (March 2021) and full audit planning report (circulated in September 2021) and Provisional Audit results report (October 2021) Final audit results report (Feb 2022)

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The Audit, Standards & Statutory Accounts Committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Provisional Audit results report (October 2021) Final audit results report (Feb 2022)
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit, Standards & Statutory Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the ommittee may be aware of	Provisional Audit results report (October 2021) Final audit results report (Feb 2022)

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report (October 2021)
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.	Outline audit planning report (March 2021) and full audit planning report (circulated in September 2021) and Audit results report (October 2021)
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report (October 2021)
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (October 2021)
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report (October 2021)

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