Broads Authority

Risk, Audit and Governance Committee

12 March 2024
Agenda item number 11

External Audit

Report by Director of Finance

Summary

The report provides an update on external audit. This includes the government consultation on addressing the audit backlog, the 2022/23 interim Value For Money (VFM) report and the 2023/24 Audit Plan.

Recommendation

To note:

i. the Government consultation;

ii. the interim 2022/23 VFM report; and

iii. the audit plan for 2023/24.

1. Introduction

1.1. This report covers three items: an update on Financial Reporting and Audit in Local Authorities, the 2022/23 interim Value For Money (VFM) report and 2023/24 Audit Plan.

1.2. A representative from EY will be attending the meeting to introduce the 2022/23 VFM and 2023/24 Audit Plan.

2. Financial Reporting and Audit in Local Authorities

2.1. Members will be aware that there have been significant pressures within the local government auditing sector resulting in a backlog of audits across the country. During 2023 the Department for Levelling Up, Housing and Communities (DLHUC) explored options with Finance Reporting Council (FRC) and the National Audit Office (NAO) on how to reset the system.

2.2. On 8 February 2024 the government issued a consultation which will run until 7 March 2024. The consultation looks at a three-phase approach to addressing the backlog:

- Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.

- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

2.3. For the government to facilitate phase 1 this would result in modified or disclaimed opinions for those years. If modified/disclaimed opinions are issued, then the auditors would be required to rebuild assurance in future years.

2.4. As part of phase 2 the Accounts and Audit Regulations 2015 would be amended so that Category 1 authorities would be required to publish audited accounts by the following dates:

- 2023/24: 31 May 2025
- 2024/25: 31 March 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

2.5. Under the proposals the Authority would still be required to publish draft Statement of Accounts by 31 May of each year.

2.6. The NAO is also proposing changes to the Code of Audit Practice and CIPFA LASAAC on temporary changes to the Code of Practice on Local Authority Accounting. The Authority will be responding the consultation. A copy of the consultation can be found in appendix 1.

3. 2022/23 Interim Value for Money

3.1. Appendix 2 contains the interim value for money report from EY. As highlighted above the NAO is consulting on the code and this may result in a change of scope. Page 8 of the appendix highlights at this stage that across the three reporting criteria (financial sustainability, governance and improving economy, efficiency and effectiveness) no significant risks or weaknesses have been identified. Pages 11-13 provides additional commentary on these.

4. 2023/24 Audit Planning

4.1. Appendix 3 contains the audit plan for 2023/24 Statement of Accounts. The report considers the likely impact of government proposals to clear the audit backlog and is covered on page 6-7 of the appendix.

4.2. Page 8 highlights key risks that the audit will focus on. This includes misstatement due to fraud or error, inappropriate capitalisation of revenue expenditure, pension valuation and valuation of land and buildings. These remain consistent with those set out in the 2021/22 audit plan.

4.3. A timeline for the 2023/24 audit is on page 32 and fees are set out on page 40. The scale fee is consistent with that published by the PSAA on 28 November 2023 and has been included in the budget. Any additional works identified required under the revised standards will increase the total amount charged.

Author: Emma Krelle

Date of report: 27 February 2024

Broads Plan strategic objectives: All

Appendix 1 – DLUHC Local Audit Consultation

Appendix 2 – Value for Money Interim Report 2022/23

Appendix 3 – Audit Planning report 2023/24

Department for Levelling Up, Housing & Communities

Simon Hoare MP
Minister for Local Government
2 Marsham Street
London
SW1P 4DF

To All Chief Executives, Chief Financial Officers, Local Authority Leaders and Local Audit Firm Partners

8 February 2024

Dear Colleagues,

Local Audit Consultation

I am delighted that today the Government is launching a consultation and Joint Statement, progressing the commitments made by the previous Minister for Local Government to work with the Financial Reporting Council (FRC), and other organisations in the local audit system on cross-system proposals to clear the backlog and put the local audit system on a sustainable footing.

Local audit is both a vital and independent source of assurance and a key element of the checks and balances within the local accountability framework. A significant number of local audits in England are outstanding. The issues facing local audit are widely recognised as multi-faceted and complex. Delays are to an extent affecting Scotland and Wales as well as England. They also impact different sectors, not just local government. It is widely recognised that many organisations in the local audit system have contributed to the delays experienced since 2017/2018 and that audits have become more challenging, with firms responding to a changing regulatory environment. In addition, pressures on the system were compounded during the COVID-19 pandemic and by an aging workforce.

The consultation seeks views on proposed legislative changes to the Accounts and Audit Regulations 2015 (the 2015 Regulations). We have published a draft statutory instrument alongside the consultation which covers the core elements of the proposed amendments. These, along with the Joint Statement are available at www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation.

These cross-system proposals have been developed and agreed by the Department for Levelling-Up Housing and Communities (DLUHC), the FRC, the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and Public Sector Audit Appointments (PSAA).

These are not proposals we take lightly, but these are exceptional times. Key organisations across the local audit system, including the Government, share the conviction that bold steps are necessary to reset the system.

The Joint Statement provides vital context, and explains the package of measures and how the various elements are intended to interact and explains that the wider package of measures consists of three stages:

- Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation itself covers questions on:

- Phase 1: ‘Backstop’ Proposals for Financial Years 2015/2016 to 2022/2023 and
- Phase 2: ‘Backstop’ Proposals for the Recovery Period, Financial Years 2023/2024 - 2027/2028

This consultation will run for four weeks from 8 February 2024 to 7 March 2024. This is an open consultation, and we welcome the views of any individual or entity interested in the proposals, including all Category 1 authorities and their Section 151 officers, audit firms, and other organisations which form part of the local audit framework. You can respond to this call for evidence through our online consultation platform Citizen Space: https://consult.levellingup.gov.uk/local-audit-and-conduct/addressing-the-local-audit-backlog-in-england .

The NAO is also consulting in parallel to this consultation, on related changes to the Code of Audit Practice. A link to the NAO consultation can be found here: www.nao.org.uk/code-of-audit-practice-consultation. Further detail on the NAO’s proposals can also be found in the Joint Statement. The CIPFA LASAAC Board will be consulting shortly on related changes to the Code of Practice for Local Authority Accounting.

While I recognise the challenges there have been I would like to encourage you to continue undertaking existing work to produce and audit local authority financial statements while the consultations take place. Any slowdown in activity would lead to further issues in the future and, ahead of the first proposed backstop date. Please do continue to work together to ensure that as many audits can be completed in full as possible.

These proposals are an important step in restoring timely and high-quality financial reporting and audit for local bodies and I am grateful for the hard work and collaboration of system organisations in developing these measures. Please let us know your views so that we can work closely together to refine and implement measures to clear the backlog of local audit opinions, and develop the long-term reforms required to prevent a backlog recurring.

I look forward to seeing your responses.

With all my best wishes,

Yours,

Simon

SIMON HOARE MP
Minister for Local Government

Broads Authority

Value for Money Interim Report

Year ended 31 March 2023

27 February 2024

Broads Authority
Risk, Audit and Governance Committee
Broads Authority
Yare House
62-64 Thorpe Road
Norwich
NR1 1RY

27 February 2024

Dear Risk, Audit and Governance Committee Members

2022/23 Value for Money Interim Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for the Broads Authority. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice (the Code) to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

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

We welcome the opportunity to discuss the contents of this report with you at the Risk, Audit and Governance Committee meeting on 12 March 2024.

Yours faithfully

David Riglar

Partner

For and on behalf of Ernst & Young LLP

Enc.

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/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 July 2021)” issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Risk, Audit and Governance Committee and management of Broads Authority in accordance with our engagement letter. Our work has been undertaken so that we might state to the Risk, Audit and Governance Committee and management of Broads Authority 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 Risk, Audit and Governance Committee and management of Broads Authority 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

Purpose

Auditors are required to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a ‘conclusion’ or ‘opinion’, but where significant weaknesses are identified we will report by exception in the auditor’s opinion on the financial statements. In addition, auditor’s provide an annual commentary on arrangements published as part of the Auditor’s Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

Appendix B sets out the Authority responsibilities for value for money, and the Auditor’s responsibilities.

The purpose of this interim commentary is to explain the work we have undertaken during the period 01/04/2022 to 31/03/2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit year 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

We will summarise our final view of the value for money arrangements as part of the Auditor’s Annual Report once the audit report has been issued for 2022/23.

Executive Summary (continued)

Risks of Significant Weakness

In undertaking our procedures to understand the body’s arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Authority committee reports;
- meetings with management and key officers;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Authority management and the finance team.

We completed our risk assessment procedures and did not identify any significant weaknesses in the Authority's VFM arrangements.

As a result, we have no matters to report by exception at this stage of the audit and we will update our interim reporting as part of issuing the final commentary in the Auditor’s Annual Report later in the year.

Executive Summary (continued)

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Risk, Audit and Governance Committee. We completed our risk assessment procedures and did not identify any significant weaknesses in the Authority's VFM arrangements.

Reporting on VFM

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

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

Status of our 2022/23 VFM work

We have completed our Value for Money risk assessment procedures, where we have considered:

- Entity level controls and our understanding the business assessment
- The Authority's Risk Register
- The Annual Governance Statement and Statement of Accounts review procedures
- Authority meeting minutes
- Our planning meetings with management
- Key financial and budget information
- Key performance reports
- Internal audit reports
- Information from local, national and specialist media.
- Findings of other inspectorates, review agencies and other relevant bodies.

Executive Summary (continued)

Reporting

Our commentary for 2022/23 is set out over pages 10 to 13. The commentary on these pages summarises our conclusions over the arrangements at the Authority in relation to our reporting criteria (see table below) throughout 2022/23.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Annual Auditors Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Authority ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Authority uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified

Executive Summary (continued)

Independence

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

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2023

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 2023:

EY UK 2023 Transparency Report | EY UK

02 Value for Money Commentary

Value for Money Commentary

Financial Sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services

No significant weakness identified

During 2022/23 the Authority continued to manage the impact on finances of a number of issues such as general inflation, pay increases and uncertainties in relation to the amount of National Park Grants to be received in the future.

The final outturn position for general income and expenditure for the 2022/23 year was a deficit of £317,000 (£186,000 National Park and £131,000 Navigation).

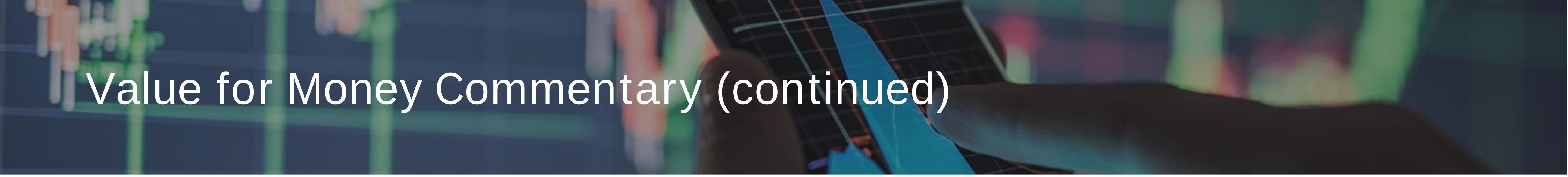
During the year, the Authority have continued to revisit and monitor financial plans to ensure they have sufficient resources to deliver services through budget monitoring reports to each Broads Authority meeting. The Authority recognises the financial challenges ahead. In 2022/23, the budget setting exercise for 2023/24 forecast a £0.119 million surplus over the 3 year MTFS period to 2025/26.

The Authority also performed budget sensitivity analysis against key assumptions to remain aware of the downside savings requirements for 2023/24. This shows an additional potential deficit of £0.228 million for a 1% adverse change in these assumptions.

The Authority has faced a number of inflationary pressures in the current economic environment. As at 31st March 2023, the authority has a total of £3.712 million in the consolidated earmarked reserves (£2.241 million National Park and £1.471 million Navigation). This is adequate to absorb the adverse variance in 2022/23. This also provides a strong level of resources if future savings are not identified or achieved in each of the 3 financial years of the Medium Term Financial Strategy, to allow the Authority to continue to deliver services.

The Authority should continue its scenario assessment of the savings requirement and continue to identify relevant schemes to achieve the annual savings requirements to minimise the use of reserves where possible.

Conclusion: Based on the work performed, the Authority had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money Commentary (continued)

Governance: How the Authority ensures that it makes informed decisions and properly manages its risks

No significant weakness identified

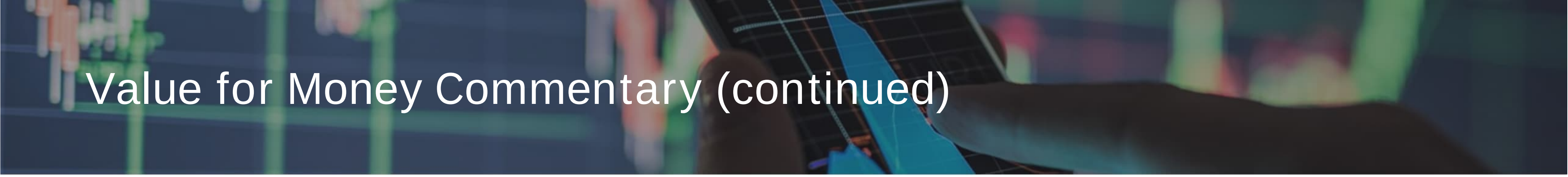
The Authority has continued to manage governance considerations including partnership working. The Authority reviewed the 2022/23 Budget Setting Report and Medium Term Financial Strategy in January 2022, with further updates during 2022/23. The documents were taken to the Broads Authority Committee for approval, which ensures that all Members are kept well informed of the process.

The Authority's Annual Governance Statement sets out the core governance arrangements for the year, including an Action Plan, which demonstrates how the Authority's Code of Governance reflects the seven principles of good governance. The Head of Internal Audit concluded that for the 2022/23 financial year, reasonable assurance may be awarded over the adequacy and effectiveness of the Authority's overall internal control environment.

The risk register and risk management policy were also updated in 2022/23 to focus on both strategic risks through the Corporate Risk Register and operational risks through the Directorate Risk Register. Risks on the Corporate Risks Register are reviewed at every Risk, Audit and Governance Committee meeting with elevation to full Authority meetings for significant risks identified.

The Authority published their draft 2022/23 financial statements for audit on the 31 May 2023, in line with the Audit and Accounts regulations, and advertised and held an inspection period for members of the public in line with these regulations. We confirm that the 2022/23 draft financial statements were arithmetically correct, agreed to the data in the general ledger, and prepared in line with the content required by the CIPFA Code. The Council has carried out bank reconciliations during the year. Therefore, appropriate arrangements for financial reporting were in place during 2022/23.

Conclusion: Based on the work performed, the Authority had proper arrangements in place in 2022/23 to enable it to make informed decisions and properly manage its risks.



Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

No significant weakness identified

The ‘*Broads Plan*’ for 2022 to 2027 has been introduced in the previous year, which sets the vision, principles, and strategic objectives for the Authority.

An Annual Business Plan integrating strategic priorities based on the ‘Broads Plan’ is agreed each year by the full Authority. Performance reporting is maintained against the identified strategic priorities, with regular reporting on performance and finances taken to the full Authority throughout the year to continuously monitor performance.

Conclusion: Based on the work performed, the Authority had proper arrangements in place in 2022/23 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

03 Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the financial year 2022/23 (01/04/2022 to 31/03/2023).

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	The Authority produces an annual budget and an update to the financial strategy at the start of each financial year. Significant financial pressures to the Authority, based on the nature of income and expenditure, are salary increases and the number of boats within the system that will require a toll. The Authority include an element of prudency within the estimates in the annual budget setting for salary increases, and monitors boat numbers through discussion with boat yards and review of annual toll payments.
How the body plans to bridge its funding gaps and identifies achievable savings	Funding gaps are considered as part of the budget setting process. In the short term funding gaps are balanced through the use of reserves, whilst appropriate savings plans and further external funding opportunities are investigated as a more long term solution. The budgeted savings are baked into the annual budget, and the tracking of delivery is reviewed against the budget monitoring reports. Management have no significant concerns over the savings plan. We note the medium term financial plan does include ongoing receipt of DEFRA grant income at a flat rate, which is still subject to some uncertainty whilst the outcome of a new settlement is awaited. A reserves policy has been put in place to ensure that minimum levels are adequate to manage future uncertainty until the end of 2025/26.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The budget is monitored with respect to minimum levels of reserves as set by the Chief Finance Officer, which is based on net expenditure totals. This ensures that delivery of services can be maintained into the future. The annual budget is produced on a zero base to ensure it is line with strategic priorities, assuming no rollover of previous budgets. Spending is split between essential and desirable expenditure in line with key priorities of the Authority.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	Workforce planning is considered by the Directors as part of the budget setting process. Capital expenditure is funded via revenue or the earmarked reserves, dependent on the capital programme strategy. This is considered at the same time as looking at the forecast future year replacements to consider the adequacy of earmarked reserves levels and contributions. The financial plan is taken to the Broads Authority at the same time as a strategic direction update which sets priorities for the financial year. The outturn position for 2022/23 was a deficit of £317,000 (£186,000 National Park and £131,000 Navigation). The Authority has faced a number of inflationary pressures in the current economic environment. As at 31st March 2023, the authority has a total of £3.712 million in the consolidated earmarked reserves (£2.241 million National Park and £1.471 million Navigation). This is adequate to absorb the adverse variance in 2022/23.

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the financial year 2022/23 (01/04/2022 to 31/03/2023).

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	Income and expenditure is monitored on a monthly basis with budget holders providing updates on any variances. Tolls income is carefully monitored against profile so that drops in demand can be quickly identified and expenditure plans can be reprioritised. Financial position updates are taken to each Risk, Audit and Governance Committee and Broads Authority Committee which provides members with the latest financial information to inform decision making. Risk management is imbedded within the Authority's financial planning arrangements. The Medium Term Financial Strategy includes prudent assumptions regarding cost inflation, future funding uncertainties and service demand pressures. These assumptions are reviewed by the management team and subsequently approved by Members. Regular budget monitoring reports are then taken to the Risk, Audit and Governance Committee throughout the year. Any unplanned budget issues identified are discussed and appropriate action is taken to address the issue. A reserves policy is also in place to ensure that the minimum agreed reserve levels are adequate to manage future uncertainty until the end of 2025/26. This supports financial resilience for the Authority over the medium term.

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the financial year 2022/23 (01/04/2022 to 31/03/2023).

Reporting Sub-Criteria	Findings
How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	Risks are monitored through the Corporate and Directorate registers. The Corporate Risk Register is reviewed by the Management Team, following a review of the Directorate Risk Registers prior to each Risk, Audit and Governance Committee with the Corporate Risk Register being reported to each Risk, Audit and Governance Committee meeting. Internal Audit's plan is carried out through a risk based approach to help determine which service areas should be reviewed. Key controls and corporate governance are always reviewed annually, with IT audits on specific areas every 2 years, in line with the Internal Audit strategy. The Head of Internal Audit provides an annual opinion on the effectiveness of controls and highlights if any areas require improvement. For 2022/23, a 'reasonable assurance' opinion was issued by Internal Audit.
How the body approaches and carries out its annual budget setting process	The Authority produces an annual budget alongside an update to the financial strategy at the start of each financial year. The budget is produced by the Chief Finance Officer based on information from relevant budget holders. The budget is prepared on a zero-budget basis which does not roll over any assumptions from the previous years' budgets. The Medium Term Financial Strategy includes prudent assumptions regarding cost inflation, future funding uncertainties and service demand pressures. These assumptions are reviewed by the management team and recommendations around the level of charges required are formed. The reports are then taken to the full Authority meeting for approval.
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	Monthly monitoring of income and expenditure is performed, with explanations for variances obtained from relevant budget holders. These are followed up at monthly meetings with the Chief Finance Officer to ensure corrective action has been taken where required, or where savings can be re-distributed elsewhere within the Authority to relieve financial pressures. Budget monitoring is lead through the finance system, and Internal Audit include Budgetary Control within their scope of work for the year. This is included within the internal audit report of 'Key Controls and Assurance Framework' which resulted in a substantial assurance for 2022/23. The Chief Finance Officer Officer was responsible for the preparation of the Statement of Accounts. The accounts and its disclosures were produced in accordance with the CIPFA code and published in compliance with the relevant legislation. The Risk, Audit and Governance Committee then approved the Statement of Accounts.

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the financial year 2022/23 (01/04/2022 to 31/03/2023).

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	Decisions are made in line with the delegated powers, budgetary provision, strategic priorities and the wider Broads Plan. Decisions made by the membership are supported by Committee reports and openly debated at Committee. Planning delegated decisions are published and expenditure is disclosed for transparency regulations. Risk, Audit and Governance Committee terms and reference are guided by CIPFA's guidelines. All members are provided annual training in relation to their responsibilities with the Statement of Accounts.
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	The 'Code of Conduct for Employees' and the 'Code of Conduct for Members and Complaints Procedure' sets out regulatory requirements and behaviour expectations. This also provides guidance on accepting gifts and hospitality. There are terms of reference for each Committee setting out responsibilities. Members interests are recorded and maintained within a formal register and any conflicts of interest must be declared at the start of each meeting so that the member does not participate in decision making for any item for which they have a conflict of interest. The Monitoring Officer is available to provide advice to members on meeting the appropriate requirements.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the financial year 2022/23 (01/04/2022 to 31/03/2023).

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	Financial outturn is compared against budget to identify areas of improvement and potential saving or service improvement. Directors are responsible for raising improvement areas where they are then investigated and discussed with the Chief Finance Officer. Performance is assessed against progress made towards the Broads Plan, Strategic Priorities and the Budget with regular updates being provided to the Authority. Any areas tracking below target will be investigated further to identify improvements. The Authority also uses various other sources of information to identify areas for improvement, including internal and external audit findings and recommendations.
How the body evaluates the services it provides to assess performance and identify areas for improvement	The 'Broads Plan' is the overarching management plan for the Broads executive area as a whole, produced by the Broads Authority as a partnership plan. Strategic priorities are aligned to the plan and this is reinforced through the Business Plan. The strategies developed reinforce the day to day delivery and these are reviewed on a regular basis by the Board and improvements identified.
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Authority maintains a partnership register which is reviewed annually to ensure it remains appropriate and up to date. The most significant partnerships are those in respect of external funding where partnership agreements are in place. Performance for these agreements is assessed against agreed expectations and modified where required.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	The Authority has 'Financial Regulations', 'Standing Orders Relating to Contracts' and a 'Procurement Strategy' that follow the relevant legislation and are updated regularly. All tenders are reviewed by the Chief Finance Officer to ensure the procurement meets the required standard. Contract templates build in monitoring throughout the contract against key performance indicators to ensure the contract is delivering as expected.

Appendix B – Authority and Auditor Responsibilities

Authority responsibilities for value for money

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

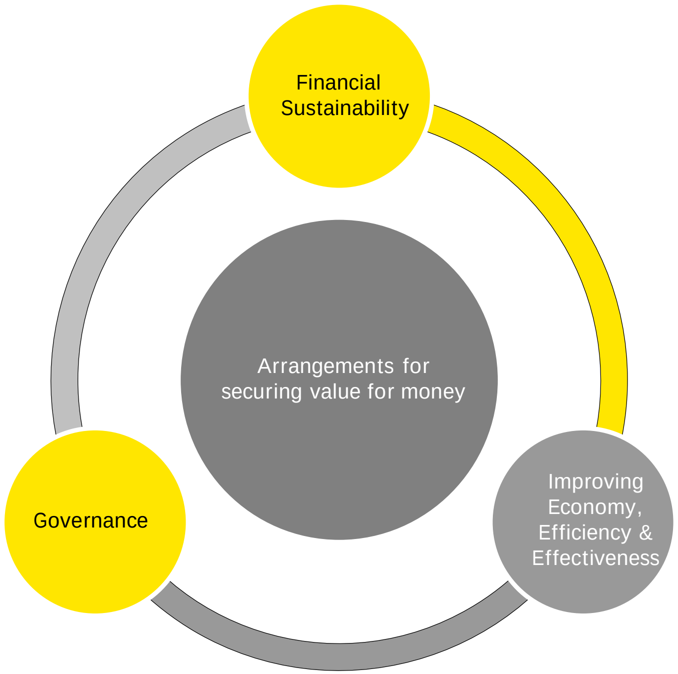
As part of the material published with the financial statements, the Authority is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Authority tailors the content to reflect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

Auditor Responsibilities

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

The specified reporting criteria are:

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



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

UKC-024050 (UK) 07/22. Creative UK.

ED None

ey.com/uk

Broads Authority
Audit planning report

Year ended 31 March 2024

27 February 2024

EY
Building a better working world

The Members
Risk, Audit and Governance Committee
Broads Authority
Yare House 62-64 Thorpe Road
Norwich NR1 1RY

27 February 2024

Dear Risk, Audit and Governance Committee

Members

Broads Authority Audit planning report Year ended 31 March 2024

Attached is our audit planning report for the forthcoming meeting of the Risk, Audit and Governance Committee. The purpose of this report is provide the Risk, Audit and Governance Committee of Broads Authority with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for the Authority. We have aligned our audit approach and scope with these. The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Risk, Audit and Governance Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Authority's wider arrangements to support the delivery of a timelyy and efficient audit. Where this is not done it will impact the level of resource needed to discharge our responsibilities. We will consider and report on the adequacy of the Authority's external financial reporting arrangements and the effectiveness of the Risk, Audit and Governance Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

(continued)

We draw Risk, Audit and Governance Committee members and officers attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

This report is intended solely for the information and use of the Risk, Audit and Governance Committee Members, and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 12 March 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

David Riglar

Partner

For and on behalf of Ernst & Young LLP

Enc

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Risk, Audit and Governance Committee and management of Broads Authority . Our work has been undertaken so that we might state to the Risk, Audit and Governance Committee and management of Broads Authority 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 Risk, Audit and Governance Committee and management of Broads Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

Context for the 2023/24 audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- DLUHC has launched a consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.
- The National Audit Office (NAO) has launched a consultation on amending the Code of Audit Practice to :
    - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
    - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of Authority and residents.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to consultation on temporary changes to the accounting code for preparation of the financial statements. The proposed temporary changes to the financial reporting framework have an impact on both how the financial statements are prepared and our audit procedures necessary to gain assurance.

As a result of the system wide implementation of backstop dates it is likely that we will disclaim the Broads Authority's 2022/23 accounts. The proposed disclaimer of the Authority's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore will have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Risk, Audit and Governance Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We have highlighted those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of this Audit Planning Report.

Overview of our 2023/24 audit strategy

Responsibilities of Authority management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Authority's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Authority resources are readily available to support the audit process, within agreed deadlines. The Risk, Audit and Governance Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Authority's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- Consider and report on the adequacy of the Authority's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- Consider the use of other statutory reporting powers to draw attention to weaknesses in Authority financial reporting arrangements where we consider it necessary to do so.
- Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out this and other factors that will lead to a fee variation at Appendix B of this report together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.
- Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.

Overview of our 2023/24 audit strategy

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

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of revenue expenditure	Fraud Risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Pension Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. 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.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	The valuation of land and buildings included in the financial statements is complex and often includes a number of assumptions and judgements. Enhanced procedures are required to challenge and evaluate key inputs and assumptions.

The outcome of consultation on the planned measures to address local audit delays and related proposed temporary changes to CIPFA's Code of Practice on Local Authority Accounting are likely to impact our assessment of audit risks and our response to them. We will continue to keep the Risk, Audit and Governance Committee updated on our assessment of any changes to audit risk as this becomes clearer.

Overview of our 2023/24 audit strategy

Materiality

Planning materiality

£0.214m

Materiality has been set at £0.214m, which represents 2% of 2022/23 gross expenditure on provision of services.

Performance materiality

£0.160m

Performance materiality has been set at £0.160m, which represents 75% of materiality.

Audit differences

£0.010m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.010m. Other misstatements identified will be communicated to the extent that they merit the attention of the Risk, Audit and Governance Committee .

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the *Authority's* 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the Risk, Audit and Governance Committee updated on any changes to materiality levels as the audit progresses.

Overview of our 2023/24 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of the Authority give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 3.

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

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

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

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

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

Taking the above into account, and as articulated in this Audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Authority's audit, we set those within this Audit planning report and we will continue to discuss these with management as to the impact on the scale fee.

Overview of our 2023/24 audit strategy

Audit scope (Cont.)

Effects of climate-related matters on financial statements

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

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

Audit scope and approach

We intend to take a substantive audit approach.

The Government proposals to re-establish the local authority framework on a more sustainable basis and the outcome of the related consultations are likely to have an impact on the scope of the audit. In particular, where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase. We draw your attention to the audit scope section 5 of this audit plan where we set out our current understanding of some of the likely impact of the proposals on our scope and approach for your 2023/24 audit. We will continue to provide updates on the impact of these changes to the Risk, Audit and Governance Committee where necessary to do so.

Overview of our 2023/24 audit strategy

Value for Money

We are required to consider whether the Authority has made ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Authority’s arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Authority’s arrangements against three reporting criteria:

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

The commentary on the Authority’s value for money arrangements will be included in the Auditor’s Annual Report.

Timeline

A timetable will be agreed with management to complete the audit by 30 September 2024. In Section 07 we include a provisional timeline for the audit. All parties need to work together to ensure this timeline is adhered to.

Key Audit Partner and senior audit team

Engagement Partner (David Riglar)

The Engagement Partner has overall responsibility for:

- The audit and its performance
- The auditor’s report that is issued on behalf of EY
- The overall quality of the audit

Manager (Takudzwa Masanzu)

The Manager has responsibility for management of the audit and ensuring that it is adequately resourced to meet both its time and budget constraints. They will also support the individual engagement team members to complete timely high quality audit fieldwork.

02 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error*

What is the risk?

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

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

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

What will we do?

We will:

- Identify fraud risks during the planning stages.
- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Discuss with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Determine an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Undertake procedures to identify significant unusual transactions.
- Consider whether management bias was present in the key accounting estimates and judgments in the financial statements.

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

Our response to significant risks

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

Inappropriate capitalisation of revenue expenditure*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

► Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.

► Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE) in the financial statements.

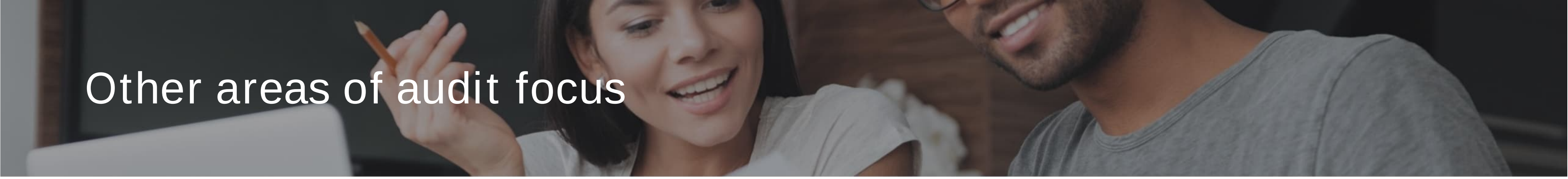
What is the risk?

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 assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

What will we do?

- Test Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Assess whether the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred.
- Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.



Other areas of audit focus

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

What is the risk/area of focus, and the key judgements and estimates?

Pension Valuation (inherent risk)

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Authority.

The Authority's pension valuation is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2023 the Net Asset was £2.467 million.

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 Committee where procedures on the use of management experts and the assumptions underlying fair value estimates.

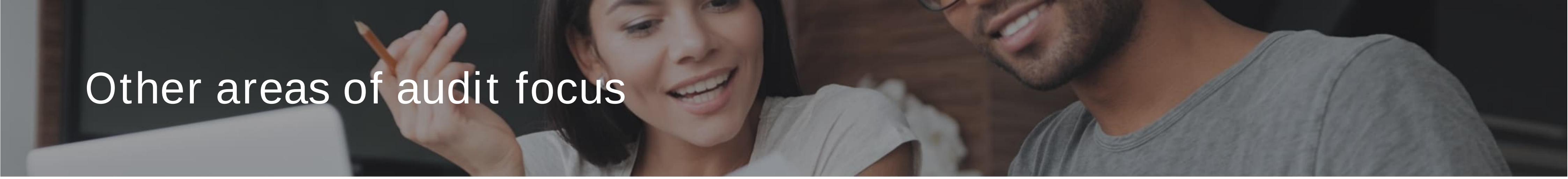
Our response: Key areas of challenge and professional judgement

We will:

- Liaise with the auditors of Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority.
- Assess the work of the pension fund actuary, Hymans Robertson, including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model.
- Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What else will we do?

We will consider outturn information available at the time we undertake our work after production of the Authority's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.



Other areas of audit focus

What is the risk/area of focus, and the key judgements and estimates?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) land and buildings represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We note that not all of the Authority's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the CIPFA Code of Practice on Local Authority Accounting The Authority's PPE is valued on a rolling programme over 5 years. The valuation basis is different depending on the type of property being revalued, with assets carried at Depreciated Replacement Cost, Existing Use Value or Fair Value. Each valuation basis is reliant on different inputs, estimation processes and assumptions.

Our response: Key areas of challenge and professional judgement

We will:

- Consider the work performed by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Review assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

What else will we do?

We will continue to consider the need to use EY Real Estates, our internal specialists on asset valuations, to support our work in this area. Based on procedures performed at the planning stage we do not expect to commission EY Real Estates.

03 Value for Money risks

Value for Money

Broads Authority's responsibilities for value for money

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

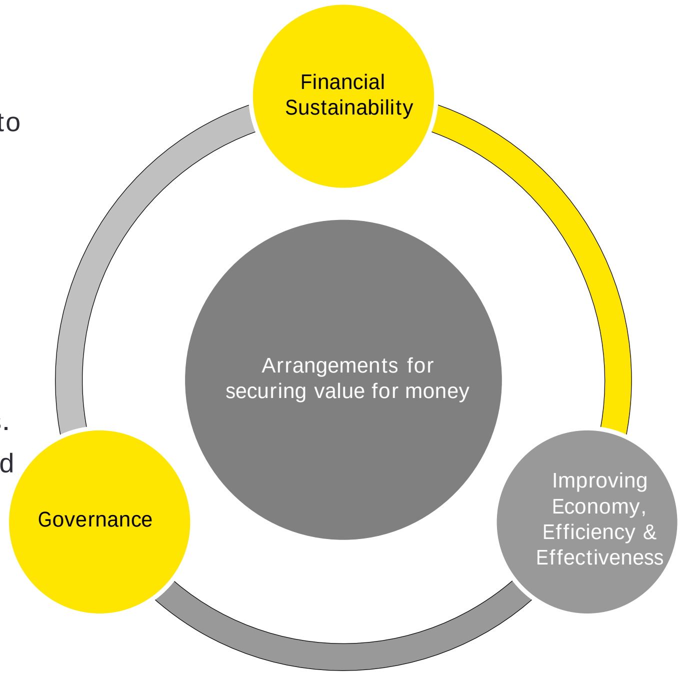
As part of the material published with the financial statements, the Authority is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Authority tailors the content to reflect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

Auditor Responsibilities

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

The specified reporting criteria are:

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



Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Authority's arrangements, we are required to consider:

- The Authority's governance statement;
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or

Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Risk, Audit and Governance Committee.

Reporting on VFM

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

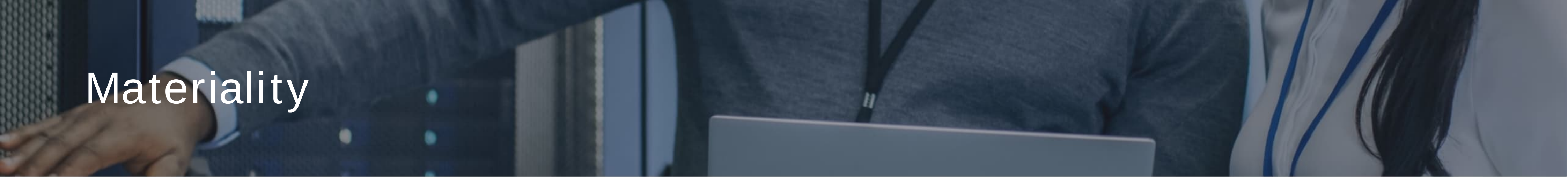
In addition, the Code requires us to include the a commentary on your value for money arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This may include matters that we do not consider to be significant weaknesses in your arrangements but should be brought to your attention. This will include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2023/24 VFM planning

We have yet to complete our detailed VFM planning. However, one area of focus will be on the arrangements that the Authority has in place in relation to financial sustainability.

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

04 Audit materiality



Materiality

Broads Authority materiality

For planning purposes, materiality for 2023/24 has been set at £0.214 million. This represents 2% of the Authority's 2022/23 gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of biggest interest to the users of the Authority's accounts. We have provided supplemental information about audit materiality in Appendix F.

Prior Year Gross expenditure on provision of services

£10.669m

Planning materiality
£0.214m

Performance materiality
£0.160m

Audit differences
£0.010m

The outcome of consultation on the planned measures to address local audit delays may impact our assessment of materiality for the 2023/24 audit. We will keep the Risk, Audit and Governance Committee updated on any changes to materiality levels as the audit progresses.

We request that the Risk, Audit and Governance Committeeconfirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

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

Specific materiality –We have set a materiality threshold of £5,000 for related party transactions, and officers remuneration including exit packages. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.160 million which represents 75% of our planning materiality. We have considered the factors of having a higher likelihood of material misstatements based on prior year adjustments.

Per our initial assessment, we do not believe there are errors that are indicative of pervasive errors throughout the financial statements or a higher likelihood of misstatement in other areas. We have therefore used a higher end or 75% of our Planning Materiality as our Performance Materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Risk, Audit and Governance Committee, or are important from a qualitative perspective.

05 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of them Authority and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

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

Other procedures required by the Code:

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

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

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Audit process and strategy

Objective and Scope of our Audit scoping (cont’d)

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Risk, Audit and Governance Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on management’s and auditor’s specialists.

Audit process and strategy

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.
- Reliance on the work of other auditors where appropriate;
- Reliance on the work of experts in relation to areas, such as pensions and property valuations.

Our initial assessment of the key processes across the Authority has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

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

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

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

Internal audit

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

David Riglar
Audit partner *

Takudzwa Masanzu
Manager

Irene Mukomba
Senior

Specialist 1
(EY Real Estates)

Specialist 2
(Specialist PWC consulting actuary and EY Actuaries)

* Key Audit Partner

Use of specialists

Our approach to the involvement of specialists, and the use of their work

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

Area	Specialists
Valuation of Land and	Management Specialist – Norfolk Property Services EY Specialist - EY Real Estates (if deemed required)
Pensions disclosure	Management Specialist – Hymans Robertson PWC (Consulting Actuary to the NAO) EY Specialist - EY Actuaries

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

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

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

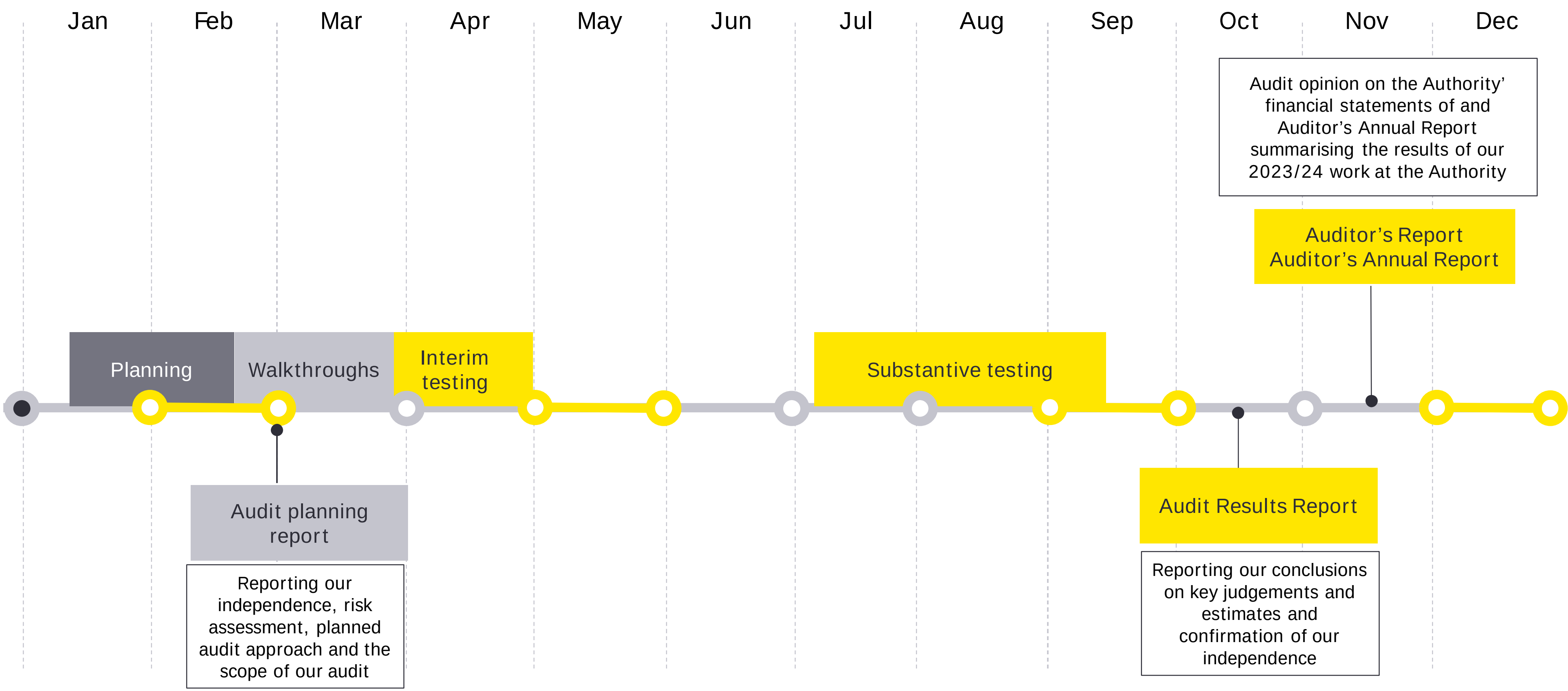
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

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



08 Independence

Introduction

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

Required communications

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

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

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report

Relationships, services and related threats and safeguards

Self review threats

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

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

Management threats

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

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

Other threats

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

There are no other threats at the date of this report

Other communications - EY Transparency Report 2023

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 period ended 30 June 2023 and can be found here: EY UK 2023 Transparency Report.

09 Appendices

Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Authority complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Authority should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- *prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- *ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- *assign responsibilities clearly to staff with the appropriate expertise and experience;*
- *provide necessary resources to enable delivery of the plan;*
- *maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- *ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- *ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- *during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

Appendix B – 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.

The agreed fee presented on the next page is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Authority;
- The Authority has an effective control environment; and
- The Authority complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Authority should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

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

Appendix B – Fees

	Current Year 2023/24	Note Reference	Prior Year 2022/23
	£		£
Scale fee	67,107	(1)	TBC
Additional work not considered by the scale fee to comply with the requirements of ISA (UK) 315 (Revised).	TBC	(2)	
Additional work not considered by the scale fee to assess the Authority's preparedness for the adoption of IFRS 16 and to consider related disclosures in the financial statements	TBC	(2)	0
Total audit	0		TBC
Other non-audit services not covered above	0		0
Total other non-audit services	TBC		0
Total fees	TBC		TBC

All fees exclude VAT

(1) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the Authority have to pay for the prior years 2021/22 and 2022/23 audits.

2) The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. We expect to charge addition fee for this.

The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- Consideration of correspondence from the public and formal objections.
- New accounting standards, for example preparedness and additional disclosures in respect of IFRS 16.
- Non-compliance with law and regulation with an impact on the financial statements.
- VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- The need to exercise auditor statutory powers.
- Modified financial statement opinions
- New identified risks and/or issues in year

Appendix C – Accounting and regulatory update

Future accounting developments

The following table provides a high level summary of the accounting development that has the most significant impact on the Authority:

Name	Summary of key measures	Impact on 2023/24
IFRS 16 Leases	• CIPFA have confirmed there will be no further delay of the introduction of the leases standard IFRS 16. • Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability. • Lease liabilities and right of use assets will be subject to more frequent remeasurement. • The standard must be adopted by 1 April 2024 at the latest.	• The 2023/24 Statement of Accounts must disclose the impact the initial application of IFRS 16 is expected to have on the authority's financial statements. • The authority should make key IFRS 16 policy decisions in accordance with the Code before 1 April 2024. • Officers must implement robust systems to ensure all relevant data points, which could prompt a remeasurement or modification of the accounting entries, are captured in a timely manner.

Appendix C – Accounting and regulatory update

Regulatory update

The following table provides a high level summary of the regularity update that has the most significant impact on the Authority:

Name	Summary of key measures	Impact on 2023/24

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement	ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:
	• Risk Assessment
	• Understanding the entity's internal control
	• Significant risk
	• Approach to addressing significant risk (in combination with ISA 330)
	The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:
	• Drive consistent and effective identification and assessment of risks of material misstatement
	• Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
	• Modernise ISA 315 to meet evolving business needs, including:
	    • how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
	    • how auditors understand the entity's use of information technology relevant to financial reporting.
	• Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.
		We will need to obtain an understanding of the IT processes related to the IT applications of the Authority.
		We will perform procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.
		When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.
		We also review the following processes for all relevant IT applications:
		• Manage vendor supplied changes
		• Manage security settings
		• Manage user access
		• Manage entity-programmed changes
		• Job scheduling and managing IT process

Appendix D – The Spring Report

A combined perspective on enhancing audit quality

The Spring Report (‘The Report’) was released by the Audit Committee Chairs’ Independent Forum (ACCIF) on 2 June 2023 and is the first of its kind. The Report is the outcome from a series of discussions held with a group of experienced Audit Committee chairs, auditors from the top 6 firms, and executives from the Financial Reporting Council. The Report details the 9 key learnings that the group agreed on, proposing evolution not revolution, and is focused on getting the basics right first time leading to enhanced audit quality. The report considers key learnings covering the planning, execution, completion and reporting phases of the audit. The full list of key learnings can be found in the report (accif.co.uk).

Appendix E – Required communications with the Risk, Audit and Governance Committee

We have detailed the communications that we must provide to the Risk, Audit and Governance Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Risk, Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of: ► The planned scope and timing of the audit ► Any limitations on the planned work to be undertaken ► The planned use of internal audit ► The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Planning Report – March 2024 - Risk, Audit and Governance Committee
Significant findings from the audit	► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process ► Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	Audit Results Report – TBC- Risk, Audit and Governance Committee; and Auditor's Annual Report – TBC– Risk, Audit and Governance Committee

Appendix E – Required communications with the Risk, Audit and Governance Committee (cont'd)

		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 Results Report - TBC - Risk, Audit and Governance Committee
Misstatements	► Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► Material misstatements corrected by management	Audit Results Report - TBC - Risk, Audit and Governance Committee
Fraud	► Enquiries of the Risk, Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ► The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ► Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ► Any other matters related to fraud, relevant to Risk, Audit and Governance Committee responsibility	Audit Results Report - TBC - Risk, Audit and Governance Committee

Appendix E – Required communications with the Risk, Audit and Governance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	Audit Results Report - TBC - Risk, Audit and Governance Committee
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence ► Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence ► Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	Audit Plan – March 2024 - Risk, Audit and Governance Committee; and Audit Results Report – TBC - Risk, Audit and Governance Committee

Appendix E – Required communications with the Risk, Audit and Governance Committee (cont’d)

Required communications	What is reported?	Our Reporting to you When and where
External confirmations	► Management’s refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report - TBC - Risk, Audit and Governance Committee
Consideration of laws and regulations	► Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ► Enquiry of the Risk, Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Risk, Audit and Governance Committee may be aware of	Audit Results Report - TBC - Risk, Audit and Governance Committee
Internal controls	► Significant deficiencies in internal controls identified during the audit	Audit Results Report - TBC - Risk, Audit and Governance Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - TBC - Risk, Audit and Governance Committee
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report - TBC - Risk, Audit and Governance Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - TBC - Risk, Audit and Governance Committee
Auditors report	► Key audit matters that we will include in our auditor’s report ► Any circumstances identified that affect the form and content of our auditor’s report	Audit Results Report - TBC - Risk, Audit and Governance Committee

Appendix F – Additional audit information

Regulatory update

Our objective is to form an opinion on the Authority's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in . We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Risk, Audit and Governance Committee. The audit does not relieve management or the Risk, Audit and Governance Committee of their responsibilities.

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Appendix F – Additional audit information (cont'd)

Other required procedures during the course of the audit

Procedures required by the Audit Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

We have included in Appendix E a list of matters that we are required to communicate to you under professional standards.

Purpose and evaluation of materiality

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

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Authority financial statements
- The level of work performed on individual account balances and financial statement disclosures

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

Appendix G - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that… so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations …"

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

The International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and

Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter	Implication
Suspected or known fraud or bribery	Potential fraud/breach of anti-bribery legislation
Health and Safety incident	Potential breach of section 2 of the Health and Safety at Work Act 1974
Payment of an unlawful dividend	Potential breach of Companies Act 2006
Loss of personal data	Potential GDPR breach
Allegation of discrimination in dismissal	Potential non-compliance with employment laws
HMRC or other regulatory investigation	Suspicion of non-compliance with laws/regulations
Deliberate journal mis-posting or allegations of financial impropriety	Potential fraud / breach of Companies Act 2006
Transacting business with sanctioned individuals	Potential breach of sanctions regulations

Appendix G - Non-Compliance with Laws and Regulations (NOCLAR) (cont’d)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years

Management response:	Audit response:
Timely communication of the matter to auditors (within a couple of days)	Initial assessment of the NOCLAR matter and its potential impact
Determine who will carry out any investigation into the matter – in-house or external specialists or mix of both	Initial consultation with risk team to determine responsive procedures and the involvement of specialists
Scope the investigation, in discussion with the auditors	Understand and agree scope of management’s investigation with support from specialists as needed
Evaluate findings and agree next steps	Evaluate findings and undertake appropriate audit procedures
Determine effect on financial statements including disclosures	Determine audit related impact including accounting and disclosure and audit opinion implications
Prepare a paper, summarising the outcome of the investigation and management’s conclusions	Document and consult on the outcome of our procedures
Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.	Communicate the outcome with management, TCWG and where necessary regulators

Key Reminders:

- Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- Communicate with us as your auditors on a timely basis – do not wait for scheduled audit catch-ups
- Engage external specialists where needed
- Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- Plan upfront and consider any impact on overall accounts preparation and audit timeline – discuss the implications with us as your auditor

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

UKC-023026 (UK) 04/22. Creative UK.

ED None

ey.com