

Crawley Borough
Council
Audit results report
Year ended 31 March 2020

22 September 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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22 September 2020



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Crawley Borough Council for 2019/20.

We have completed a large part of our audit of the Council for the year ended 31 March 2020. As set out on pages 5 and 6, a number of issues have arisen as a result of COVID-19 which impacted on our audit. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3 of this report, before the accounts publication date of 30 November 2020. We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 22 September 2020.

Yours faithfully

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This 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 (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

Executive Summary

Scope update

In our audit planning report distributed in lieu of the March Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and investment properties.
- Disclosures on Going Concern - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Adoption of IFRS16 - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality - In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.7m, with performance materiality, at 75% of overall materiality, of £2m, and a threshold for reporting uncorrected misstatements of £135,000. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross revenue expenditure we have updated our overall materiality assessment to £2.9m. This results in updated performance materiality, at 75% of overall materiality, of £2.2m, and an updated threshold for reporting misstatements of £147,000.



Executive Summary

Scope update

Extended significant risk – valuation of investment properties. In our audit planning report, we identified a significant risk around “Valuing and Accounting for Property, Plant and Equipment (Other Land and Buildings and Assets Under Construction)”. This risk was focused on the valuation itself rather than its disclosure. With investment property valuations being closely linked with markets that are uncertain, we consider that the risk extends to the investment property category of Land and Buildings as well as the Land and Buildings included within PPE.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority’s systems. We addressed this through the use of technology to enable virtual sharing of evidence.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We will report the impact on our audit fee at the completion of our procedures.

Executive Summary

Status of the audit

We have largely completed our audit of Crawley Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Completion of our work of the valuation of Land and Buildings (including the Town Hall) and investment properties – specifically the enquiries detailed at page 14 of this report. Completion of routine audit procedures for Land and Buildings and investment properties once those findings are agreed with management.
- Valuation of pension fund net asset – Receipt and review of West Sussex Pension Fund auditors IAS 19 assurances and completion of any follow-up testing in connection with that report.
- Completion of the documentation and residual queries for testing outside of those areas of audit focus.
- Receipt and review of cash and rent reconciliations required for completion of housing rents walk through testing.
- Going concern – Review of management's going concern assessment and supporting documentation – as outlined at page 17 of this report. Additional EY consultation requirements concerning the impact of Covid-19 and disclosures relating to that.
- Receipt and review of responses to our requests for assurance from the Monitoring Officer and Chair of the Audit Committee.
- Review of the final version of the Financial Statements, Narrative Statement and Annual Governance Statement – including confirming reasonable reflection of comments made on drafts.
- Completion of our final manager and Associate Partner review processes.
- Completion of subsequent events review.
- Receipt of the signed management representation letter.
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit differences

At the time of writing this report, we have identified no adjusted or unadjusted audit differences to bring to your attention.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Crawley Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report:

- Misstatements due to fraud or error – page 11
- Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure – page 12
- Valuing and Accounting for Property, Plant and Equipment (Other Land and Buildings and Assets Under Construction and Investment Properties) – page 13
- Valuation of Pension Fund Assets and Liabilities – page 15
- Valuation of NNDR Appeals Provision – page 16
- Financial Statements presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement – page 16
- Going concern – page 17

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

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

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

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified a significant risk around the signing of a contract with Kier for building a new Town Hall.

As detailed in section 5 of this report, we assessed project governance and project and risk management. Arrangements were found to be appropriate in terms of the Authority making informed decisions and working with partners and other third parties. The Council is constantly updating its arrangements to respond to the changing environment of the project and acting accordingly. The arrangements in place are open and transparent (unless commercially sensitive) and available freely to residents and service users. Appropriate contingency has been built into the contract to protect the Council if Kier is unable to deliver its contract with Westrock.

We have no further matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

Our work includes reviewing the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Our review was ongoing at the time of writing this report.

Our work includes the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. Our review was ongoing at the time of writing this report.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

Our testing included:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

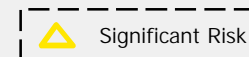
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business





Areas of Audit Focus

Significant risk

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

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What judgements are we focused on?

Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.

What did we do?

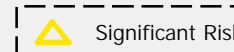
We took a substantive approach to respond to this risk, undertaking the following procedures:

- Tested a sample of capital expenditure at a lower testing threshold, to verify that revenue costs had not been inappropriately capitalised;
- For significant additions we examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16. In particular, the New Town Hall spend and spend associated with the proposed heat distribution network was flagged for testing as part of our work.
- Journal testing - we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

Journal entry testing is now complete and there were no issues identified from our work.

At the time of writing this report, our other work was ongoing. We note that spending on the Heat Distribution Network has been delayed until 2020-21.





Areas of Audit Focus

Significant risk

Valuing and Accounting for Property, Plant and Equipment (Other Land and Buildings and Assets Under Construction and Investment Properties)

What is the risk?

At 31 March 2019, Other Land and Buildings included within Property, Plant and Equipment were valued at £181,768,000. Assets Under Construction included within Property, Plant and Equipment were valued at £31,168,000.

Assets Under Construction are accounted for at cost until they come into use and most Land and Buildings are valued on a rolling basis over a five year cycle. However, the highest value Land and Buildings are valued annually at the year end and include the Town Hall; the K2 leisure centre; the Hawth theatre; a medical centre; and a 3G pitch and pavilion.

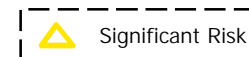
During 2019/20, work started to demolish the existing Town Hall and replace it with a new Town Hall, affordable housing and, in the longer term, infrastructure to support a district heat network. The building project will span several years and ultimately cost up to £50 million. At the time of writing this report, the expectation is that the Statement of Financial Position (SoFP) will include amounts representing the work in progress. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the SoFP.

What judgements are we focused on?

When planning the audit, we were focused on judgements around valuing and accounting for work in progress on the new town hall project. With a high value, high profile project ongoing, there was also a focus on resourcing of and conclusions from the year end valuations exercises for other assets in the Authority's Property, Plant and Equipment portfolio.

In the wake of the Covid-19 pandemic, the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer give rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.

With investment property valuations being closely linked with markets that are now uncertain, we also consider that both the valuation and disclosure risks extend to the investment property category of Land and Buildings as well as the Land and Buildings included within PPE.





Areas of Audit Focus

Significant risk

What did we do?

Our testing procedures include:

- Considering the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- instructing our own Property valuation team (EY Real Estates) to review a sample of property valuations performed by the Council's Valuer
- Considering 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.
- Reviewing assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Considering changes to useful economic lives as a result of the most recent valuation;
- Testing accounting entries have been correctly processed in the financial statements including a review of the accounting paper on the treatment of the NTH; and
- We also note that the Council valuer attached a 'material uncertainty' clause to their valuation as a result of Covid-19. We reviewed the adequacy of the disclosure of this in the Council's accounts.

What are our conclusions?

As a result of our work we have challenged the valuation assumptions on the following valuations undertaken by Wilks Head and Eve which we are following up with management:

Bewbush Centre - The replacement cost per square foot is higher and the age-obsolescence adjustment applied by the valuer lower, than would be expected given the age and condition of the building. Whilst any proposed adjustment is unlikely to be material (c.£350k) we will need to conclude on the extent to which other assets valued using a similar basis could be affected by similar considerations.

Ashdown House and Atlantic House - The valuation approach used does not currently make an allowance for re-letting voids or tenant incentives at expiry or re-letting costs. We would expect there to be deductions for purchaser costs and net initial yields used for valuation are lower than expected given the age and quality of the buildings. This potentially means an overstatement of £1.7m for Ashdown House and Atlantic House of £230k. The extent to which other investment properties could be affected by similar considerations will be assessed once discussions and enquiries around Ashdown and Atlantic House are complete.

The Council's external valuer did disclose a 'material uncertainty' in its year end valuation report in line with RICS guidance. Our work on disclosure was still ongoing at the time of writing this report. Once this is satisfactorily concluded we will consider the need to include an emphasis of matter paragraph in our audit report highlighting the Council's disclosure in this area to the reader of the accounts.

For clarity, an emphasis of matter paragraph is not a modification of our opinion. It is a paragraph in our report which highlights a disclosure in the financial statements that, in our judgment, is of importance to the users' understanding of the financial statements.

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?

Valuation of Pension Fund Assets and Liabilities

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

Crawley Borough Council's pension fund assets and liabilities are material estimated balances and the Code requires that the liability be disclosed on the Council's balance sheet. At 31 March 2019 the net liability was valued at £16,164,000. However, as noted in our Audit Results Report for 2018-19, that balance was stated net of an unadjusted increase to net pension scheme assets of £543,000. The unadjusted increase related to an unadjusted difference of £1,655,000 between West Sussex County Council's estimated value of pension scheme assets and their audited valuation, combined with an unadjusted increase to pension scheme liabilities of £1,112,000 to allow for the impact of the McCloud ruling.

Asset and Liability values captured in Crawley Borough Council's 2019/20 accounts will again derive from information issued to the Council by the actuary to West Sussex County Council Pension Fund and will again involve significant estimation and judgement and potentially be impacted by any future employment tribunal rulings in connection with the McCloud case.

What did we do?

We have:

- Liaised with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council.
- 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 Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and

The year end accounts disclosed Net Pension Assets at 31 March 2020 of £24,785k. Net Pension Liabilities at 31 March 2019 had been measured as £16,164k. At the time of writing this report, we were awaiting the Pension Fund auditor's audit report and/or indications of areas where any additional pensions data testing may be required by our team to support assurances from the Pension Fund audit team. We anticipate some reflection within the audit report of the uncertainty impact of Covid-19 on pension fund asset valuations.

The UK Government recently announced on the McCloud remedy consultation that the estimated impact for McCloud may now be less than previously estimated figure included in the majority of employers' current 31 March 2020 IAS19/FRS102 balance sheet positions. At the same time, a UK Tribunal recently ruled on 30th June 2020 in another discrimination case (Goodwin) that additional liabilities are likely to be required to correct widow/ widower discrimination in the Teacher's Pension scheme. The Local Government pension scheme is likely to be equally affected.

We walked through management's assessment that the maximum impact of adjusting liabilities for McCloud could reasonably be assessed as a reduction to liabilities of £456,000 and that the maximum impact of adjusting for Goodwin could reasonably be assessed as an increase to liabilities of £300,000, and this management deemed this to be immaterial. We note that as it did not have a material impact on the net pension asset, there is no requirement to be disclosed as post balance sheet event.

Other areas of audit focus

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

What is the risk/area of focus?	What did we do?
<p>Valuation of NNDR Appeals Provision Crawley Borough Council's NNDR Appeal Provision was valued at £4,083,000 at 31 March 2019. This is a high value estimate driven by internal calculations and judgement.</p>	<p>We tested data, assumptions and calculations supporting the Appeals Provision balance of £1,948,000 at 31 March 2020.</p> <p>We compared the level of appeals at 31 March 2020 and 31 March 2019 to assess the reasonableness of amounts provided for at year end.</p> <p>We also checked alignment of the Authority's accounting treatment with West Sussex County Council's NNDR debtors and creditors.</p> <p>There were no issues identified from our work.</p>
<p>Financial Statements presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement Crawley Borough Council's internal reporting structure changed during 2019/20. The classifications on the Expenditure and Funding Analysis and of the Comprehensive Income and Expenditure Statement will need to reflect the new reporting structure, both for 2019/20 and for 2018/19 amounts.</p>	<p>We:</p> <ul style="list-style-type: none"> • Reviewed proposed changes to the format of accounts during the interim audit visit; • Confirmed that the prior year reclassification is correctly disclosed; and • Tested correctness extraction from the ledger and consistency of that extraction with the internal reporting structure for all other items on the Income Statement and Expenditure and Funding Analysis. <p>No issues were identified from our work.</p>

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?

Going Concern

Covid-19 has created a number of financial pressures throughout Local Government. There is currently uncertainty in terms of financial support from MHCLG that covers all financial consequences of Covid-19. Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. The disclosures on Going Concern for 2019/20 also became a focus of attention. We consider the unpredictability of the current environment gives rise to a risk that the Local Authorities may not appropriately disclose the key factors relating to going concern.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What did we do?

At the time of writing this report, we were undertaking a review of management's own assessment that the Authority is a going concern. Management's (and our) assessment includes consideration of liquidity, borrowings and 2020-21 budget reporting and the disclosure in the 2019/20 accounts. Our work will be ongoing until the completion of the audit.

As noted above due to the impact of Covid-19, we are required to consult internally with our risk department over the level of disclosure. That process will conclude our work in this area.



03 Audit Report



Audit Report

Draft audit report

This is an example report – our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CRAWLEY BOROUGH COUNCIL

Opinion

We have audited the financial statements of Crawley Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- Housing Revenue Account
- Collection Fund, and
- The related notes 1 to 43 of the Authority's main Financial Statements; notes 1 – 8 of the Housing Revenue Account; and notes 1 to 3 of the Collection Fund.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Crawley Borough Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

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

Emphasis of matter – Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 4 (Valuation of Operational Property), which describes the valuation uncertainty the Authority is facing as a result of the Covid-19 pandemic in relation to specific property valuations. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Head of Corporate Finance (S151 Officer)s' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Corporate Finance (S151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Head of Corporate Finance (S151 Officer) is responsible for the other information.

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Crawley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Head of Corporate Finance (S151 Officer)

As explained more fully in the Statement of Responsibilities set out on page 16, the Head of Corporate Finance (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Corporate Finance (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.



Audit Report

Our opinion on the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Crawley Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Crawley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Crawley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



Audit Report

Our opinion on the financial statements

Use of our report

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

Andrew Brittain (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
Xx Xxx 2020

The maintenance and integrity of the Crawley Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences





Audit Differences

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

Summary of audit differences

We undertook to highlight misstatements greater than £135,000 that were identified during the course of our audit. At the time of writing this report, there were no corrected or uncorrected misstatements greater than this amount.

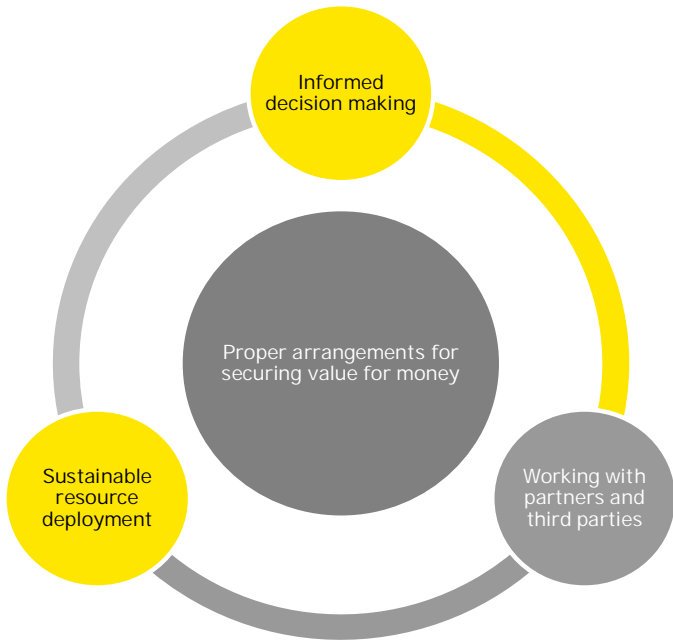


05

Value for Money



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

Overall conclusion

We identified a significant VFM risk around the signing of a contract with Kier in December 2019 for the next stage of building a new Town Hall. The table below presents our findings in response to this risk in our Audit Planning Report.

As the table shows, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risk area in our Audit Planning Report.

Crawley Borough Council signed a contract with Kier for the next stage of building of a new Town Hall on 20th December 2019. Demolition of the existing building began in January 2020.

Building work is likely to span a number of years and total spend across the project as a whole is likely to be in the region of £50 million, incurred and financed across those years.

From our VfM procedures in 2018-19 we were satisfied that effective processes were in place to support the financial forecasting that underpinned decision making for the project as a whole. Looking at 2019/20, it is the effectiveness of arrangements in place around the ongoing project management. The significant risk in a value for money context then encompasses the selection and contracting of partners, plus the oversight and monitoring of those within the overall governance structure for the project.

Effective delivery by the project partners and safeguards for contingency in the event of non delivery will be critical as will be ongoing effective budgeting; resourcing; and appointment of other partners.

The effectiveness of the ongoing project management is critical with respect to arrangements for;

- Taking informed decisions
- Deploying resources in a sustainable manner
- Working with partners and other third parties

We performed the following work as part of our audit process:

- Review of the governance around ongoing delivery partner decision making and the adequacy of measures to protect the Council’s position should the selected partner be unable to deliver on contracts once they are up and running;
- Assessment of the robustness of initial and ongoing analysis and due diligence to assess the likelihood of partners delivering against requirements;
- Evaluation of the appropriateness of governance, reporting and oversight over the contract to mitigate the risk of Kier not delivering and the contingency in place;
- Review of the sufficiency of budget and resources to manage the relationship and risks; and
- Evaluation of the timescales over which heat network contracts and mini tenders are finalised and the effectiveness of procedures for quality assuring technical advice.

Findings from this work are discussed on page 28 of this report.

Value for Money Risks

We looked at the extent to which the New Town Hall work stream followed governance requirements laid down in the Authority's Constitution by regularly updating the Cabinet, having regular liaison with Portfolio Holders, and reporting to the Overview & Scrutiny Committee as and when requested. We concluded that appropriate communications are in place.

We noted that a risk register specially for the Town Hall is produced by the Project Board (also called Principals Meeting) and reviewed at Audit Committee approximately every six months. We found that the risks identified are appropriate and common in a major project of this kind. We noted that the risks are offset by relevant risk control and mitigations and a relevant RAG rating is provided. The Risk Register is effective in providing more detail around the specific project - ensuring risks are reviewed and dealt with in a timely manner, and updated as and when new risks arise.

Given Kier issued a profit warning during the year, we examined whether measures have been put in place to safeguard the Council. Measures were seen in the risk register - Eight risks have been identified and are being managed by the Project Board to ensure the Council's position is protected by continuous monitoring of budget and timeliness of delivery of the various stages en route to the completion of the Town Hall. These risks are:

- Planning conditions require amending which impacts on financial viability of the scheme
- Impact of construction Phase 1 and Phase 2 to residents and commercial tenants
- Errors or omissions in legal or contractual documentation
- Decision gateways and need for CBC authority result in delays making key decisions
- Westrock unable to obtain development funding for project Phase 2 (market housing)
- Impact of changes to values of offices/housing
- Project exceeds budget
- Contractor is declared bankrupt and is unable to complete the construction contract

We noted that the Council has addressed all risks and has suitable mitigating actions against each risk to ensure the Council's position is protected.

Overall, governance, project and risk management were found to be appropriate in terms of the Authority making informed decisions and working with partners and other third parties. The Council is constantly updating its arrangements to respond to the changing environment of the project and acting accordingly. The arrangements in place are open and transparent (unless commercially sensitive) and available freely to residents and service users. Appropriate contingency has been built into the contract to protect the Council if Kier is unable to deliver its contract with Westrock.

We note that the District Heat Network has been delayed and therefore was not included within the scope of our VfM work for 2019/20.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements

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

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

Our review of the Annual Governance Statement was ongoing at the time of writing this report.

Whole of Government Accounts

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

Our work was ongoing at the time of writing this report.

Other powers and duties

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

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. We have no issues to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client.

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08 Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 22 September 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees for the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2020.

We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Audit Plan we outlined the basis on which the scale fees are set by PSAA and we have outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity and therefore it endangers the sustainability of Local Audit in the future. Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council as shown below. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals.

All fees exclude VAT	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Code work fee (Note 1)	77,691	50,291	55,511
Additional fee to address Covid-19 related risks (Note 2)	TBC	N/A	N/A
Total audit	TBC	50,291	55,511
Other non-audit services (Housing Benefits – Note 3)	TBC	N/A	25,049
Total other non-audit services	TBC	N/A	25,049

Note 1: We presented summary of factors impacting our code work in our Audit Plan. Further analysis of the factors and their impact are summarised overleaf. The fees are subject to the approval of PSAA.

Note 2: We have carried out additional work in response to the material uncertainty reported by the Authority's valuer and additional procedures to address Covid-19 related risks. These are specific to the 19/20 audit year and once quantified we will discuss with management and the PSAA.

Note 3 - At the time of writing this report, fees for our work on the 2019/20 housing subsidy claim had not yet been agreed.

Update on audit fees

Fees

Summary of impact

We outlined in our audit plan the basis on which the scale fees are set by PSAA. We also outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council as shown below. Note that given the timing of this exercise it does not include the impact of any specific requirements in relation to additional work in response to COVID-19. These amounts are subject to the approval of PSAA.

	Rationale for fee variation	Impact on CBC
Scale fee		£50,291
Changes in risk profile	As a result of macro changes in the sector and the impact on the council in terms of the risks being faced, the decisions being made and the financial reporting of those, this in turn increases audit risk, as outlined in our audit plans, and we need to extend our procedures to address these.	£11,600
Changes in regulatory environment	There has been a significant increase in the focus on areas of the financial statements especially where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. Our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and the increased use of specialists. We have also seen wider changes in the regulatory environment which all firms have needed to respond to. These include the various reviews, completed or ongoing, which all have a focus on audit quality and what is expected of external auditors. This has increased compliance and quality assurance costs which are now required for us to continue to provide services to the sector.	£13,400
Changes in expectations on delivery	Our expectation of the degree of efficiency that would be achievable, for instance through greater automation, has an impact on each audit.	£2,400
Revised scale fee (to be approved by PSAA)		£77,691

Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

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 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf




A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, white, blue, green) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

10 Appendices




Appendix C

Required communications with the Audit Committee




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

		Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report – March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report – Sept 2020
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • 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





Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	At the time of writing this report, no subsequent events have been identified that would impact either individually or together on Crawley Borough Council's financial statements as at 31 March 2020
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • 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 Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • 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 Authority 	Audit results report

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report and Audit results report</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report – notes that none were identified

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report and Audit Results Report
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report

Management representation letter - draft

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

To:

Andrew Brittain
Associate Partner
Ernst & Young LLP
Apex Plaza,
Forbury Road
Reading RG1 1YE

Ernst & Young

This letter of representations is provided in connection with your audit of the financial statements of Crawley Borough Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Crawley Borough Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

Additional information that you have requested from us for the purpose of the audit; and

Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

We have made available to you all minutes of the meetings of the Cabinet, Council and Audit Committee held through the year to the most recent meeting on the following date: **XXXX**

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter

Management Rep Letter

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

From 23 July 2019 through to the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 40 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

Other than as described in the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.

We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

Note [X] to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property and in generating the IAS19 pension disclosures and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Management representation letter

Management Rep Letter

I. Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on estimates and made in accordance with the applicable financial reporting framework.

We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

J. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Karen Hayes (Head of Corporate Finance)
Date: xxx 2020

Cllr Millar-Smith (Chair of the Audit Committee)
Date: xxx 2020

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