

A photograph of a meeting table with documents and hands pointing at them. The background is a bright, clean office environment. Several people's hands and arms are visible, pointing at various documents spread across the table. A smartphone is also visible on the table. The overall scene suggests a collaborative work environment.

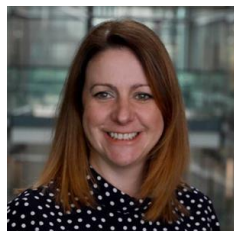
Crawley Borough Council Update - Audit Planning Report

Year ended 31 March 2021

December 2021

FIN/547

1 December 2021



Crawley Borough Council
Town Hall,
The Boulevard
Crawley,
West Sussex
RH10 1UZ

Dear Audit Committee Members

Update - Audit Planning Report 2020/21

Please find attached an update to our Provisional Audit Planning Report which was previously issued dated 19 July 2021. This document has been prepared to address the changes in audit risks as a result of our completed planning procedures.

We have now completed our routine audit planning procedures and this update summarises the changes to our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. We will update the Audit Committee if our assessment changes further during the course of the audit.

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

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours sincerely

E. Jackson.

Elizabeth Jackson

For and on behalf of Ernst & Young LLP



01 Audit Updates



Audit Updates

Audit risks and areas of focus

Risk / area of focus

Rents issue

In addition to the risks and areas of focus reported in our Provisional Audit Planning Report in July 2021 we have identified a risk that the Council has not treated the repayment of the overcharged Council tenant rents correctly in the financial statements. More details are on the following page.

Value for money conclusion

We reported in our Provisional Audit Planning Report that we had not started our detailed value for money planning against the new NAO Code requirements and that we would update the next Committee meeting on the outcome of our planning and our planned response to any identified risks of significant weaknesses in arrangements. We will update the Committee on progress in this area at the Audit Committee on 14 December 2021.

However, based on the above risk / area of focus from a financial statements perspective, we also consider that there is a value for money risk of significant weakness in relation to the overcharging of rents from April 2014 onwards.

To gain assurance over this risk, we will:

- ▶ Consider whether the refund amounts calculated have been reasonably derived.
- ▶ Consider whether there is a clear audit trail / documentation in support of the refund amounts.
- ▶ Consider whether there are any wider implications or indications of poor arrangements.
- ▶ Gain an understanding of what lead to this error.

Audit progress to date

The audit for the Council has started and our aim is to report the results to the Committee in February 2022.

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 risk identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

Financial statement impact

The financial statements do not accurately reflect the accounting treatment for the over charged rent.

What is the risk?

Crawley Borough Council disclosed to us that it came to their attention in April 2021 that they had been overcharging rent to council housing tenants since April 2014 for all new tenancies post April 2014 in properties that pre-date April 2014. This was identified due to the Council performing a forensic investigation after being contacted by the Regulator for Social Housing, who had identified that the Council was identified as being an outlier in that its target rents were around 8% higher than the Governments formula rent and valuations suggested they should be, following a first mandatory data return about the setting of target rents. The Council came under the Regulator from April 2020.

The Council have estimated the total cost of reimbursing the rents for the period 1 April 2014 to date is expected to be in the region of about £3.3m which is greater than planning materiality of £2.6m at year end.

The Council have made an initial determination that this should be accounted for as a post balance sheet non-adjusting event. However, it is unclear at present what action the Regulator will take regarding this issue.

The risk is that the Council have not accurately calculated the total impact value, and that they do not account for this correctly in 2020/21.

What will we do?

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

- ▶ Obtaining and reviewing the Council's root cause analysis for this issue.
- ▶ Obtaining confirmation from the Regulator regarding the actions they intend to take.
- ▶ Evaluate the procedures undertaken by the client, to determine whether the quantification of the issue is reliable and reasonable.
- ▶ Review the legal advice received by the Council regarding this issue.
- ▶ Determine whether the proposed accounting treatment is correct.
- ▶ Document Council's approach to notifying impacted tenants.
- ▶ Consider the impact of repaying the rents on the going concern of the Council.

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