

Crawley Borough Council Audit results report

Year ended 31 March 2021

March 2022

FIN/567

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

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3 March 2022



Crawley Borough Council
Town Hall
The Boulevard
Crawley
United Kingdom
RH10 1UZ

Dear Audit Committee Members,

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee and management of Crawley Borough Council. We will update the Audit Committee at its meeting scheduled for 15 March 2022 on further progress to that date and explain the remaining steps to be completed before we can issue our audit report.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Crawley Borough Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit Committee and management of Crawley Borough Council, other members of the Council. 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 Audit Committee meeting on the 15 March 2022.

Yours faithfully,

Elizabeth Jackson

Associate Partner

For and on behalf of Ernst & Young LLP

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

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

This report is made solely to the Audit Committee and management of Crawley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Crawley Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, and management of Crawley Borough Council 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

Audit Scope

In our audit planning report tabled at the 19 July 2021 and the update issued at December 2021 Audit Committee meetings respectively, 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 in materiality**

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure, we have updated our overall materiality assessment to £2,654,000 (Audit Planning Report – £2,952,000). This results in updated performance materiality, at 75% of overall materiality, of £1,990,000, and an updated threshold for reporting misstatements of £132,000. These thresholds decreased as a result of lower gross expenditure reported in the draft 2020/21 financial statements (£132,704,000) versus the audited 2019/20 financial statements (£147,603,000) .

▶ **Additional audit procedures as a result of Covid-19**

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

- ▶ Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:
 - ▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
 - ▶ Agreed IPE to scanned documents or other system screenshots.

Status of the audit

Our audit work in respect of the Council opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Completing our work in a number of areas of the audit, such as asset valuations, capital additions, financing Income, Operating Income, Employee Benefits, Reserves, HRA disclosures, Short Term Debtors and journal testing
- ▶ Completion of EY review of audit work
- ▶ Receipt of the signed financial statements and signed letter of management representation
- ▶ Whole of Government Accounts




Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion.

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Valuations	Our internal specialists are currently reviewing the other land and buildings and investment property valuations. Once we have received their report, we will need to consider the implications of their review and findings over key assumptions used by the valuer across the remaining land and building and investment properties revalued in the year. Our remaining work on the valuations is complete subject to review.	EY
Completion of our work on the additions of property, plant and equipment	We have received the evidence from officers and need to tick this through to our sample	EY
Journal entry testing	We have received the evidence from officers and need to tick this through to our sample	EY
Resolution of work on Financing Income, Operating Income, Employee Benefits, Reserves, HRA disclosures and Short Term Debtors	We have received responses to our audit queries from officers and need to complete our documentation in these areas	EY
Going concern	We have received the going concern assessment from officers and are performing our procedures over this area	EY
Completion of our planned procedures over the rents overcharging issue for the financial statements and value for money	We are waiting to receive the internal audit report regarding the rents overcharging issue. We have discussed the progress of work in this area with officers and will update the Committee verbally	EY and Internal Audit
Completion of review of revised financial statements	We are currently reviewing the latest draft financial statements to confirm that they include all the expected amendments arising from the audit and our review of the financial statements.	EY
Completion of EY review of audit work	Completion of EY review procedures	EY
Completion of Conclusion procedures	Completion of our conclusion audit steps such as subsequent events procedures to the date of signing the audit report	EY
Receipt of the signed financial statements and signed letter of management representation	We will need to perform our final audit procedures following receipt of the signed financial statements and letter of representation	EY and officers
Whole of Government Accounts	Once we receive the NAO instructions on this for 2020/21 we will be able to complete our work in this area	EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Statement of Accounts. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern and asset valuations remain to be finalised and audited. A draft of the current opinion is included in Section 3.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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

Status of the audit - Value for Money

As reported to the Audit Committee in December 2021, we have completed our value for money risk assessment and identified one risk of significant weakness in the Council's arrangements in relation to the overcharging of rents in the housing rents account.

We have not completed our planned value for money procedures on the housing rents overcharge issue. We will complete this work prior to issuing our audit report. We plan to issue the value for money commentary within the Auditor's Annual report by 3 months after the audit report, in line with the extension provided by the NAO for 2020/21, within our Auditor's Annual Report.



Executive Summary

Audit differences

- ▶ There are currently two unadjusted known differences as at 3 March 2022 which we set out in more detail in Section 4 Audit Differences.
- ▶ We have not identified any other differences requiring Management adjustment.
- ▶ Management have corrected disclosure misstatements in disclosures relating to the annual governance statement, Note 18 disclosure (Financial Instruments), Note 2 Accounting Standards that have been issued but have not yet been adopted, Narrative report, Note 9 Adjustments between Accounting Basis and Funding Basis and Collection Fund disclosure note.

As elements of our audit work are ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Audit Committee at the next meeting on whether we identified any further issues that need to be reported to you.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement (AGS) for consistency with our knowledge of Crawley Borough Council. We have the following matters to report as a result of this work:

Crawley Borough Council disclosed to us in April 2021 that they had been overcharging rent to council housing tenants since April 2014 for all new tenancies since this date in properties that pre-dated April 2014. This was identified due to the Council performing a forensic investigation after being contacted by the Regulator for Social Housing following the first mandatory data return on the setting of target rents to the Regulator. The Council's return identified them as an outlier as the target rents were around 8% higher than the Governments formula rent and valuations suggested they should be. 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. We are currently reviewing the management briefing paper to determine our view of the 2020/21 reporting requirements.

We have identified inadequate disclosure relating to this issue as it was not reported in the AGS. Although the Council has publicly reported the issue, we have requested management amends the AGS to include reference to the issue arising in the year and action taken.

Whole of Government Accounts

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance was not expected to be available until early 2022. Therefore the 2020/21 WGA component data will not be available for auditors to review until after that.

We have no other matters to report.

Executive Summary

Areas of audit focus

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

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	We have not identified any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Inappropriate capitalisation of revenue expenditure	Our sample testing of additions to PPE: <ul style="list-style-type: none"> • Found costs had been correctly classified as capital and included at the correct value. • Did not identify any revenue items that were incorrectly classified as capital. Our review of judgements taken by management found them to be reasonable.
Significant Risk	Findings & Conclusions
Valuation of Land & Buildings in Property, Plant & Equipment (PPE) under Existing Use Value (EUV) and Investment Properties (IP) under Fair Value (FV)	Our work in this area remains in progress as at 3 March 2022. Further details are set out in Section 2 of this report.
Rents Issue	Our work in this area remains in progress as at 3 March 2022. Further details are set out in Section 2 of this report.

Executive Summary

Areas of audit focus continued

Area of audit focus / Inherent risk	Findings & Conclusions
Valuation of Land & Buildings in PPE under Depreciated Replacement Cost (DRC) and Housing Revenue Account (HRA) properties (Inherent risk)	Our work in this area remains in progress as at 3 March 2022. Further details are set out in Section 2 of this report.
Pension Liability and Asset Valuation (Inherent risk)	<p>We modified our planned approach to address the requirements of the revised auditing standard on accounting estimates by testing the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.</p> <p>We have completed our work and are satisfied that the pension asset valuation is materially fairly stated. Further details are set out in Section 2 of this report.</p>
Going Concern (Area of audit focus)	Our work in this area remains in progress as at 3 March 2022.
Accounting for Covid-19 related government grants (Inherent risk)	Based on our work, we are satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.

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

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

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

Control observations

We have adopted a fully substantive approach, and have not tested the operation of controls. We have, however, updated our understanding of the key processes and the controls which are in place to detect or prevent error. Through this work, 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.

Independence

We can confirm that we remain independent of Crawley Borough Council and include an update in Section 09.



02

Areas of Audit Focus



Areas of Audit Focus

Fraud Risk

Misstatements due to fraud or error

What is the risk?

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

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

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

What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified significant risk - Inappropriate capitalisation of revenue expenditure.

Our work on estimates focussed on the valuation of Land & Buildings in PPE under EUV and IP under Fair Value as significant risk, and the valuation of Land & Buildings in PPE under (DRC) and HRA properties, and IAS19 pension estimates as areas of higher inherent risk and are reported further in this report.

What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

What are our conclusions?

Our work is ongoing in this area. To date:

- ▶ We have found no evidence that management had attempted to override internal controls.
- ▶ Our work on journals testing is ongoing.
- ▶ We have not identified any instances of materially inappropriate judgements being applied.
- ▶ We have not identified any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation to date.



Areas of Audit Focus

Fraud risk



Further details on procedures/work performed

We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.

We have:

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

We have performed 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, including estimates with a higher level of inherent risk relating to the revaluation of PPE, IP & surplus assets and pension liability and asset valuation.
- ▶ Evaluating the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

Having re-evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We continued to conclude that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' were required - See the next page for further details.



Areas of Audit Focus

Fraud risk

Risk of misstatements due to fraud or error - specifically in 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 is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

What judgements are we focused on?

We focused on whether expenditure was properly capitalised in its initial recognition, or whether subsequent expenditure on an asset enhances the asset or extends its useful life.

What did we do?

Our approach focussed on:

- ▶ For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.
- ▶ We extended our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- ▶ Journal testing - we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.
- ▶ Revenue Expenditure Funded by Capital Under Statute (REFCUS) - We extended our testing of items that were classified as REFCUS in the year by lowering our testing threshold. We challenged management's classification to ensure that items were appropriately included in this category. Expenditure that is classed as REFCUS is mainly in the form of capital grants where the Council does not receive an asset on the Balance Sheet.

What are our conclusions?

We have completed our work as follows:

- ▶ Our sample testing of additions to property, plant and equipment is ongoing
- ▶ From our work on REFCUS, we did not identify any misstatements. We are consequently satisfied that the expenditure under REFCUS was appropriately classified.
- ▶ Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.



Areas of Audit Focus

Significant risk

Rents Issue

What is the risk?

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

There is risk of inappropriate accounting for the transactions based on the interpretation of the regulations.

What judgements are we focused on?

We have focused on whether the overcharge costs have been correctly calculated. Over and above the reasonability and accuracy of the calculations, we have focused on determining that the accounting effects of the transaction have been recorded in the correct periods based on the requirements of the Regulations.

What did we do?

In order to address this risk we have carried 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.
- ▶ Evaluating the procedures undertaken by the client, to determine whether the quantification of the issue is reliable and reasonable.
- ▶ Reviewing the legal advice received by the Council regarding this issue.
- ▶ Determining whether the proposed accounting treatment is correct.
- ▶ Documenting Council's approach to notifying impacted tenants.
- ▶ Considering the impact of repaying the rents on the going concern of the Council.

What are our conclusions?

Based on the extensive work completed by the Council the pre 1 April 2020 financial impact is £1.5m and the impact on 2020/21 is £690k. The Council have made a judgement that the accounting for the total amount should be recognised in the 2021/22 accounts.

We are still concluding on the correct accounting treatment and consulting with our Professional Practice Department and Legal Department. We will update you on our conclusion before we issue the audit report for 2020/21.



Areas of Audit Focus

Significant risk

Valuation of Land & Buildings in Property, Plant & Equipment (PPE) under Existing Use Value (EUV) and Investment Properties (IP) under Fair Value (FV).

What is the risk?

The value of land & buildings in PPE under EUV and in IP under FV represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Given the nature of Covid-19 and the fact that 2020/21 was predominantly influenced by local and national lockdowns, we anticipate that the valuer will not be able to conduct site visits due to the restrictions that are in place and that the valuer will have to perform a remote approach to valuing the properties which will further increase the risk around these valuations.

At 31 March 2021, the value of land & buildings in PPE under EUV was £66.9m and in IP under FV was £24.6m.

What did we do?

Our approach focussed on:

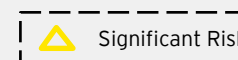
- ▶ Considering the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Challenging the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists as necessary - for example, significant or unusual movements in valuation; or investments in areas of the economy under stress such as retail.
- ▶ Sampling testing key asset information used by the valuers in performing their valuation (e.g. yield).
- ▶ Considering the annual cycle of valuations to ensure that EUV assets have been valued within a 5 year rolling programme as required by the Code for PPE, and annually for IP. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- ▶ Reviewing any EUV and FV properties not subject to valuation in 2020/21 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.

What are our conclusions?

As at 3 March 2022, our work in this area remains in progress as we have not yet received final outputs from the EYRE consideration of a sample of assets subject to revaluation in the year. The results of the EYRE review are also needed to fully complete our own local team testing of the revaluation.

We will provide a verbal update at the Committee meeting.

From our work performed to date, we have identified an unadjusted misstatement pertaining to the valuation of Investment Property (Ashdown House) asset at the reporting date. This misstatement (£1,120k) is below our performance materiality threshold (2,654k) and therefore we are satisfied that the asset valuation is materially fairly stated and appropriately disclosed for the audit report.



Audit risks

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.

What is the area of focus?	What did we do?	What are our conclusions?
<p>Valuation of Land & Buildings in PPE under Depreciated Replacement Cost (DRC) and Housing Revenue Account (HRA) properties</p> <p>The value of land & buildings in PPE under DRC and HRA properties also represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a lesser degree of material judgemental inputs and apply estimation techniques are required to calculate these balances held in the balance sheet and HRA notes. Although there is a risk for land & buildings under DRC due to the specialised nature of these assets and insufficient availability of market-based evidence to assist the valuation, these assets and HRA properties are inherently not subject to material uncertainty arising due to market conditions.</p> <p>At 31 March 2021, the value of land & buildings in PPE under DRC was £100.7m and in HRA properties was £700.7m.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none">▶ Considering the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.▶ Challenging the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists as necessary - for example, significant or unusual movements in valuation, or difficult to value specialist assets.▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre).▶ Considering the annual cycle of valuations to ensure that properties have been valued within a 5 year rolling programme as required by the Code for PPE. We also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.▶ Reviewing properties not subject to valuation in 2020/21 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.	<p>As at 3 March 2022, our work in this area remains in progress as we have not yet received final outputs from the EYRE consideration of a sample of assets subject to revaluation in the year. The results of the EYRE review are also needed to fully complete our own local team testing of the revaluation.</p> <p>We will provide a verbal update at the Committee meeting.</p>

Audit risks

Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
<p>Net Pension Asset Valuation</p> <p>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.</p> <p>The Council's pension fund asset is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £28.3m.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary.</p> <p>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.</p>	<p>We have:</p> <ul style="list-style-type: none"> ▶ Obtained assurances over the information supplied to the actuary in relation to the Council; ▶ Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▶ Reviewed and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. <p>We also considered outturn information available at the time we undertook our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We used this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments were required.</p>	<p>Our planned work in this area is now complete, subject to review. Subsequent to our planning reports, an issue arose across all local government audits in relation to the impact of the revised auditing standard on accounting estimates.</p> <p>We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.</p> <p>From our work performed, we have identified an unadjusted misstatement pertaining to the valuation of the pension fund assets at reporting date. This misstatement (£1,025k) is below our performance materiality threshold (£2,654k). We are satisfied that the pension liability and asset valuation is materially fairly stated and appropriately disclosed.</p>

Audit risks

Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
<p>Going Concern</p> <p>Covid-19 has created a number of financial pressures throughout local government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced some income losses. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19.</p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>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'.</p> <p>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p>	<p>We have met the requirements of the revised auditing standard on going concern (ISA 570) and considered the adequacy of the Council's going concern assessment and its disclosure in the accounts by:</p> <ul style="list-style-type: none"> ▶ Challenging management's identification of events or conditions impacting going concern. ▶ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). ▶ Reviewing the cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. ▶ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. ▶ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties. 	<p>As at 3 March 2022 our work in this area remains in progress as we have not yet received final outputs from management.</p> <p>We will provide a verbal update at the Committee meeting.</p>

Audit risks

Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
<p>Accounting for Covid-19 related government grants</p> <p>We also considered outturn information available at the time we undertook our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We used this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments were required.</p>	<p>We considered the Council's judgement on material grants received in relation to whether it is acting as:</p> <ul style="list-style-type: none">▶ Agent, where it has determined that it is acting as an intermediary; or▶ Principal, where the Council has determined that it is acting on its own behalf. <p>For grants received where the Council acted as principal, we have further considered whether any associated restrictions and conditions have been met and that grants have been claimed and recognised in accordance with the scheme rules.</p>	<p>Based on our work, subject to review, we are satisfied that the accounting treatment adopted for Covid-19 related government grants and accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p>
<p>Valuation of NNDR Appeals Provision</p> <p>Crawley Borough Council's NNDR Appeal Provision was valued at £4.1m at 31 March 2021. This is a high value estimate driven by internal calculations and judgement.</p>	<p>We have:</p> <ul style="list-style-type: none">▶ Agreed data used to calculate the provision to reports received from the Valuations Office Agency.▶ Confirmed appeals percentage provided for its reasonability, considering the government's baseline data for predicting business rates appeals.▶ Repeat performed the calculations to confirm arithmetical correctness.▶ Compared the level of appeals at 31 March 2021 and 31 March 2020 to assess the reasonableness of amounts provided for at year end.	<p>Based on our work, subject to review, we are satisfied that the accounting treatment adopted for provisions is appropriate and the calculations are accurate.</p>



03 Audit Report

Draft audit report

Our draft 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 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Expenditure and Funding Analysis
- ▶ Comprehensive Income and Expenditure Statement,
- ▶ Movement in Reserves Statement,
- ▶ Balance Sheet,
- ▶ Cash Flow Statement
- ▶ the related notes 1 to 24
- ▶ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 8
- ▶ Collection Fund and the related notes 1 to 3

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

In our opinion the financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the ACouncil 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Head of Corporate Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

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



Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Head of Corporate Finance is responsible for the other information contained within the Statement of Accounts.

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

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

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

As explained more fully in the Statement of the Head of Corporate Finance Responsibilities set out on page 2, the Head of Corporate Finance 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Corporate Finance is responsible for assessing the Council'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 Council either intends to cease operations, or have no realistic alternative but to do so.

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

Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:
 - ▶ Local Government Act 1972,
 - ▶ Local Government and Housing Act 1989 (England and Wales),
 - ▶ Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
 - ▶ Local Government Act 2003,
 - ▶ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,

- ▶ Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948)
- ▶ Business Rate Supplements Act 2009
- ▶ The Local Government Finance Act 2012,
- ▶ The Local Audit and Accountability Act 2014, and
- ▶ The Accounts and Audit Regulations 2015.

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

- ▶ We understood how Crawley Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- ▶ We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance through inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.



Audit Report

Draft audit report (cont.)

Our draft opinion on the financial statements

- ▶ To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- ▶ To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

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

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

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

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

Delay in certification of completion of the audit

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

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 the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Elizabeth Jackson

Associate Partner

For and on behalf of Ernst & Young LLP

Luton

Date



04 Audit Differences





Audit Differences

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

Summary of adjusted and unadjusted differences

There have been no misstatements greater than £1,990k at 3 March 2022 which have required management correction.

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

Uncorrected misstatements 31 March 2021 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors						
Investment Property valuation: Differences in the Ashdown house valuation of £1,120k identified.		1,120		(1,120)		
Pension fund liabilities and assets valuation: Differences in the pension fund assets of £1,025k identified.	(1,025)			1,025		

A small number of other amendments were made to disclosures appearing in the financial statements as a result of our work.



05

Value for Money



Value for money

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

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

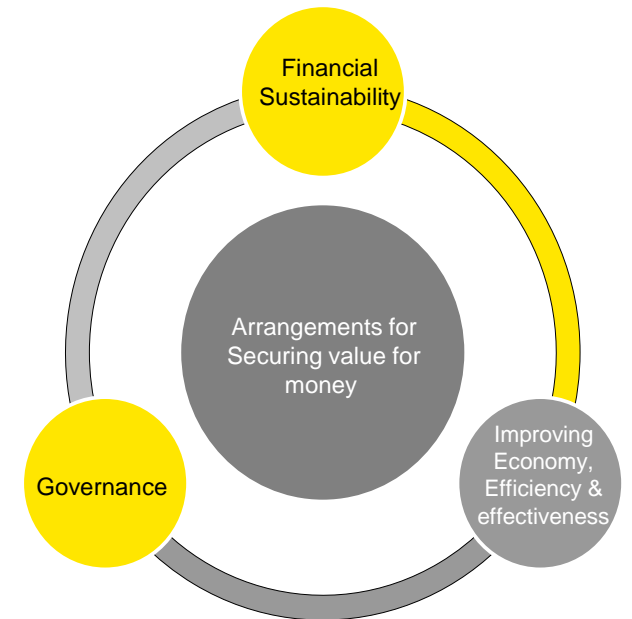
Risk assessment

As reported to the Audit Committee in December 2021, we have completed our value for money risk assessment and identified one risk of significant weakness in the Council's arrangements in relation to the overcharging of rents in the housing rents account.

We have revisited our risk assessment and have not identified any additional risks of significant weakness in the Council's arrangements.

Status of our VFM work

We have not completed our planned value for money procedures on the housing rents overcharge issue. We will complete this work prior to issuing our audit report. We plan to issue the value for money commentary within the Auditor's Annual report by 3 months after the audit report, in line with the extension provided by the NAO for 2020/21, within our Auditor's Annual Report.





Responding to a risk of significant weakness in VFM arrangements

What is the risk/area of focus?

What will we do?

What are our conclusions?

Rents Issue

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.

This is a breach of laws and regulations, therefore there is a risk that the Council's arrangements led to this breach being enabled.

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.

Our work in this area is still ongoing.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements.

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

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. However, we conclude that there has been inadequate disclosure of the rents issue on the AGS and have requested that management report the issue arising in the year and action taken to address it.

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.

We have not yet been able to perform the procedures required by the NAO on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance was not expected to be available until early 2022. Therefore the 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process.

Other reporting issues

Other reporting issues

Other powers and duties

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

We did not identify any issues which required us to issue a report in the public interest apart from the rents issue that the council has already considered and brought to the attention of the public. Therefore, we have concluded that this has been sufficiently reported publicly and further reporting by the auditor is not required.

Other matters

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

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

We have nothing to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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.

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

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, however we have noted two control exceptions as follows:

- Through our audit of cash and cash equivalents, we identified an immaterial salary control account that was included as part of cash and cash equivalents. This account is not cash in nature. This account is part of the monthly bank reconciliations that go through various levels of management review which did not pick up this error. The Council should review the accounts categorised as cash and cash equivalents to ensure that they meet the definition of such an asset and should not be reclassified.
- As part of the audit of Property, Plant and Equipment, for assets valued under the Depreciated Replacement Cost method, we struggled to obtain floor plans for the assets selected for sampling due to such records not being maintained by the Council. The Council should hold all records pertinent to the assets held on the Balance Sheet. The Council should review the data held to ensure that it is sufficient.

We then considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08

Independence

Relationships, services and related threats and safeguards

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

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

Services provided by Ernst & Young

The table below sets out a summary of the fees that are due to us for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee - Code work	50,291	50,291	50,291
2019/20 fee variation determined by PSAA (Note 1)	27,398	27,398	14,200
2019/20 additional audit fee for risk based work (Note 2)	-	-	8,434
2020/21 PSAA expected additional minimal core fees (Note 3):			
• VFM	8,500	-	-
• ISA 540 accounting estimates			
2020/21 proposed fee variation - other (Note 4)	TBC	-	-
Total Fees	TBC	77,689	72,925

- (1) We outlined in our 2019/20 Annual Audit Letter (AAL) 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 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 totalling £27,398, which has been shared with management but we did not reach agreement on that rebasing. A total of £14,200 has now been approved by PSAA.
- (2) We outlined in our 2019/20 AAL the basis for the additional Scale Fee Variation expenses relating to additional work required for Going Concern and significant risks, as well as additional Covid-19 related costs totalling £13,133. This was discussed with management although an additional fee was not agreed. An additional fee has now been approved by PSAA totalling £8,434.
- (3) Additional Value for Money work required due to changes in the Code of Practice on Local Authority Accounting impact from 2020/21 and additional work to address the new ISA540 risk. PSAA determined fee ranges for this work and communicated these in August 2021 in 'Additional information for 2020/21 audit fees'.
- (4) Additional work completed in relation to the rents overcharging issue.

Other communications

EY Transparency Report 2021

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

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

[EY UK 2021 Transparency Report | EY UK](#)







09

Appendices

Appendix A

Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Crawley Borough Council's 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 presented at the Crawley Borough Council Audit Committee meeting on 19 July 2021 and the update issued at December 2021 Audit Committee meetings respectively
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>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.</p>	Audit planning report presented at the Crawley Borough Council Audit Committee meeting on 19 July 2021 and the update issued at December 2021 Audit Committee meetings respectively
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 presented to the Audit Committee on 15 March 2022.





Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	Audit Results Report presented to the Audit Committee on 15 March 2022.
Misstatements	<ul style="list-style-type: none"> ▶ 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 presented to the Audit Committee on 15 March 2022.
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. 	Audit Results Report presented to the Audit Committee on 15 March 2022.





Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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 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: <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 presented to the Audit Committee on 15 March 2022.
Related parties	<p>Significant matters arising during the audit in connection with the entity'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 entity 	Audit Results Report presented to the Audit Committee on 15 March 2022.
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>Audit planning report presented at the Crawley Borough Council Audit Committee meeting on 19 July 2021 and the update issued at December 2021 Audit Committee meetings respectively</p> <p>Audit Results Report presented to the Audit Committee on 15 March 2022.</p>

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
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. 	Audit Results Report presented to the Audit Committee on 15 March 2022.
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 	Audit Results Report presented to the Audit Committee on 15 March 2022.




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	<p>Audit planning report presented at the Crawley Borough Council Audit Committee meeting on 19 July 2021 and the update issued at December 2021 Audit Committee meetings respectively</p> <p>Audit Results Report presented to the Audit Committee on 15 March 2022.</p>
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Not Applicable to Crawley Borough Council
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 presented to the Audit Committee on 15 March 2022.
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 presented to the Audit Committee on 15 March 2022.
Auditors report	<ul style="list-style-type: none"> ▶ 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 presented to the Audit Committee on 15 March 2022.

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Valuations	Our internal specialists are currently reviewing the other land and buildings and investment property valuations. Once we have received their report, we will need to consider the implications of their review and findings over key assumptions used by the valuer across the remaining land and building and investment properties revalued in the year. Our remaining work on the valuations is complete subject to review.	EY
Completion of our work on the additions of property, plant and equipment	We have received the evidence from officers and need to tick this through to our sample	EY
Journal entry testing	We have received the evidence from officers and need to tick this through to our sample	EY
Resolution of work on Financing Income, Operating Income, Employee Benefits, Reserves, HRA disclosures and Short Term Debtors	We have received responses to our audit queries from officers and need to complete our documentation in these areas	EY
Going concern	We have received the going concern assessment from officers and are performing our procedures over this area	EY
Completion of our planned procedures over the rents overcharging issue for the financial statements and value for money	We are waiting to receive the internal audit report regarding the rents overcharging issue. We have discussed the progress of work in this area with officers and will update the Committee verbally	EY and Internal Audit
Completion of review of revised financial statements	We are currently reviewing the latest draft financial statements to confirm that they include all the expected amendments arising from the audit and our review of the financial statements.	EY
Completion of EY review of audit work	Completion of EY review procedures	EY
Completion of Conclusion procedures	Completion of our conclusion audit steps such as subsequent events procedures to the date of signing the audit report	EY
Receipt of the signed financial statements and signed letter of management representation	We will need to perform our final audit procedures following receipt of the signed financial statements and letter of representation	EY and officers
Whole of Government Accounts	Once we receive the NAO instructions on this for 2020/21 we will be able to complete our work in this area	EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Statement of Accounts. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern and asset valuations remain to be finalised and audited. A draft of the current opinion is included in Section 3.

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]

[Date]

Elizabeth Jackson
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

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 2021. 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 Council financial position of Crawley Borough Council as of 31 March 2021 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 2020/21.

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

1. 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 2020/21.
2. 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 (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. 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 2020/21, 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.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have

Management representation letter

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not corrected these differences identified by, and brought to the attention from, the auditor because they are judgemental variances between two technical expert methodologies and are below the materiality threshold.

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

1. 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.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. 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

1. 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.
2. 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.
3. We have made available to you all minutes of the meetings of the Full Council, Cabinet, Audit Committee and Governance Committee held through the year to the most recent meeting of the Council on 23 February 2022, Cabinet on 2 February 2022, Audit Committee on 07 February 2022 and Governance Committee on 25 January 2022.
4. 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.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Management representation letter

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6. 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.
7. From the date of our last management representation letter dated 02 March 2021, through 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

1. 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.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 43 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.

F. Subsequent Events

1. Other than Note 5 to 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.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Notes 18 and 22 to the financial statements, we have no other line of credit arrangements.

Management representation letter

Management Rep Letter

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, investment property, HRA properties and IAS19 pension fund liability, 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.

K. Estimates

- i. **Revaluation of land and buildings classified as property, plant and equipment, investment property and HRA properties**
- ii. **Pension liability and asset valuation**

1. We confirm that the significant judgments made in making the revaluation of land and buildings classified as property, plant and equipment, investment property, and HRA properties, and the pension liability and asset valuation have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the land and buildings classified as property, plant and equipment, investment property, and HRA properties, and the pension liability and asset valuation.

3. We confirm that the significant assumptions used in making the land and buildings classified as property, plant and equipment, investment property, and HRA properties, and the pension liability and asset valuation appropriately reflect our intent and ability to carry out these valuations on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in making the land and buildings classified as property, plant and equipment, investment property, and HRA properties, and the pension liability and asset valuation.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

L. Retirement benefits

1. 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,

Appendix B

Management representation letter

Management Rep Letter

(Chief Financial Officer)

I confirm that this letter has been discussed and agreed at the Audit Committee on 15 March 2022.


(Chair of the Audit Committee)

Appendix D

Implementation of IFRS 16 Leases

In previous reports to the Crawley Borough Council Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the council until 1 April 2022. However, officers should be acting now to assess the council's leasing positions and secure the required information to ensure the council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	Management should: <ul style="list-style-type: none"> ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The council needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> ▶ Whether to adopt a portfolio approach ▶ What low value threshold to set and agree with auditors ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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ED None

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