



**Crawley Borough  
Council**  
**Audit planning report**  
Year ended 31 March 2018

March 2018



Audit Committee

Private and Confidential

Crawley Borough Council

6 March 2018

Town Hall, The Boulevard

Crawley, West Sussex

RH10 1UZ

Dear Audit Committee Members

**Audit planning report**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 6<sup>th</sup> March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

**Paul King**

For and on behalf of Ernst & Young LLP

Enc

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). 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 (updated February 2017)" 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

# Overview of our 2017/18 audit strategy



## Overview of our 2017/18 audit strategy

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

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (management override)	Fraud risk	No change in risk	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of Property, Plant and Equipment and Investment Properties	Inherent risk	No change in risk	Property, Plant and Equipment was valued at £775m at 31 March 2017 and Investment Properties were valued at £21m as at that date. These represent significant balances in Crawley Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk	Employees of Crawley Borough Council may take part in West Sussex County Council's pension fund. At 31 March 2017, Crawley's obligations under this fund were valued at £11,823,000. The valuation of this liability was based on an actuarial report and on work that involves significant estimation uncertainty.



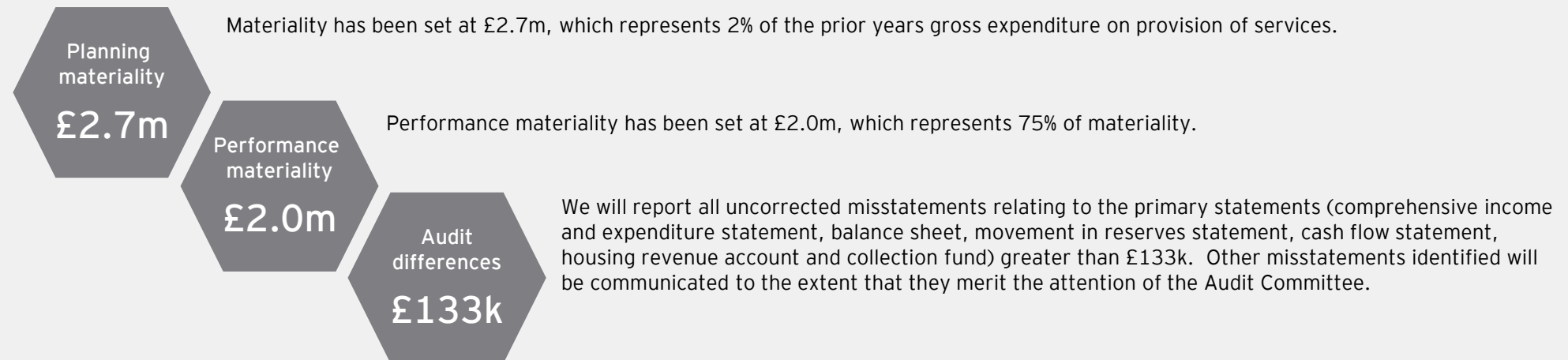
# Overview of our 2017/18 audit strategy

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

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
NNDR Appeals Provision	Inherent Risk	Increase in risk	The Valuations Office Agency issued new rateable values on 1 April 2017 and there is a risk that appeals could increase in year.
Earlier deadline for production of the financial statements	Area of focus	New focus	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. These changes provide risks for both the preparers and the auditors of many financial statements although we note that Crawley Borough Council did meet these deadlines in the previous two years.

## Materiality



# Overview of our 2017/18 audit strategy

## Audit scope

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

- Our audit opinion on whether the financial statements of Crawley Borough Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

## Audit team changes

### **Audit Manager**

Jo Taylor replaces Malcolm Haines as audit manager. Jo has twelve years government and public sector audit experience.

There are no other significant changes to our team.



02

Audit risks



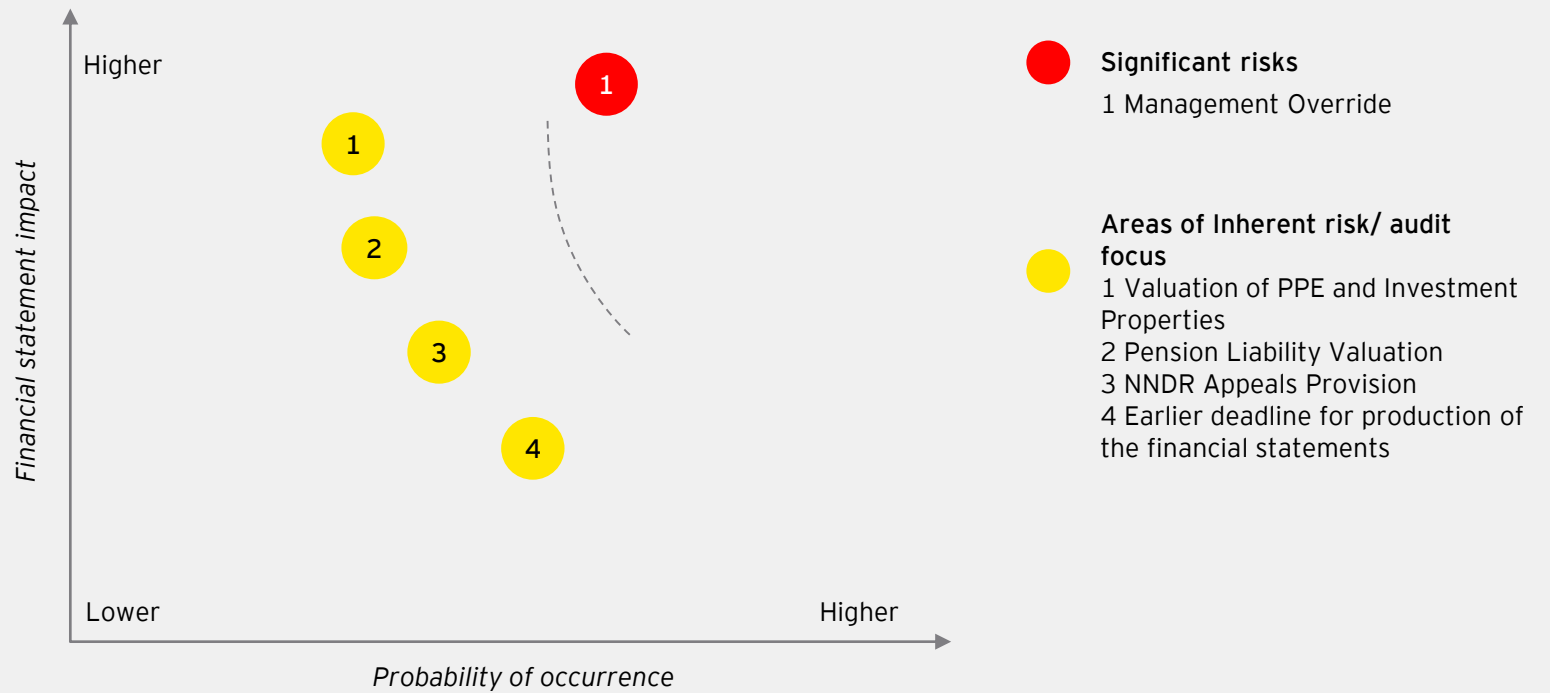


## Risk assessment

### Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2016/17 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



# Audit risks

## Our response to significant risks

### Misstatements due to fraud or error (management override)

#### 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 will we do?

Our response will include:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Reviewing accounting estimates for evidence of management bias.
- ▶ Evaluating the business rationale for significant unusual transactions.



## Other areas of inherent risk

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

### What is the risk?

#### Valuation of Property, Plant and Equipment and Investment Properties

Property, Plant and Equipment was valued at £775m at 31 March 2017 and Investment Properties were valued at £21m as at that date. These represent significant balances in Crawley Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Detailed valuation work is undertaken by the Council's valuers Wilks, Head and Eve.

Investment Properties and high value items of Land and Buildings are valued at the reporting date. For Council Dwellings and the remaining Other Land and Buildings, Wilks, Head and Eve undertake detailed revaluation work at the end of December and the Council applies an uplift adjustment to reflect estimated valuation movements in the last three months of the year. We note that in 2016/17, Housing Stock was estimated to have increased in value by £5,708,000 in the last three months of the year and Other Land and Buildings were estimated to have increased in value by £452,000 in that period. Adjustments to reflect those changes in value had not been included within the first draft account presented for audit, although this was corrected during the audit process.

### What will we do?

We will:

- ▶ Consider the work performed by the Council's valuers Wilks, Head and Eve, including the scope of the work performed on valuations at 31 December 2017 and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise.
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- ▶ Review any assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- ▶ Consider changes to useful economic lives as a result of the most recent valuation.
- ▶ Test accounting entries have been correctly processed in the financial statements.
- ▶ Review arrangements to calculate uplift movements in last three months of the year for Council Dwellings and Other Land and Buildings. We will test calculations in detail and check they are reflected in the draft accounts.

## Audit risks

### Other areas of inherent risk

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

#### What is the risk?

##### Pension Liability Valuation

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

**Crawley Borough** Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £11,823,000. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to West Sussex County Council.

Accounting for this scheme involves significant estimation and judgement and this is why management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What will we do?

We will:

- ▶ Liaise with the auditors of West Sussex County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Crawley Borough Council.
- ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used.
- ▶ Review and test the accounting entries and disclosures made within Crawley Borough Council's financial statements in relation to IAS19.



## Audit risks

### Other areas of inherent risk

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

#### What is the risk?

##### NNDR Appeals Provision

Crawley Borough Council's NNDR Appeal Provision was valued at £2,152,000 at 31 March 2017. The Valuations Office Agency published new rateable values on 1 April 2017 and appeals against those values are expected. We note that approximately 25% of all business rates received by the Council relate to Gatwick Airport.

#### What will we do?

We will:

- ▶ Monitor any appeals against the new ratings issued on 31 March 2018 and assess what impact these have on the value of the appeals provision at 31 March 2018 and the way that it is accounted for and disclosed.
- ▶ Compare the levels of all other appeals at 31 March 2018 and 31 March 2017 to assess the impact of the new ratings which have been introduced on Crawley Borough Council's NNDR income stream.

## 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 and therefore may be key audit matters we will include in our audit report.

#### What is the risk?

##### Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council could include complex areas of accounting being time-pressured; slippage in delivering data for analytics work in format and to time required; and managing a new timetable for internal quality assurance arrangements.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

#### What will we do?

We are working with the Council to address these challenges, for example:

- Agreeing a streamlined presentation of audit working papers.
- Testing Council Dwelling valuations and exit packages during the interim audit visit instead of the final audit visit.
- Testing Investment Property and Property, Plant and Equipment valuations in March 2018, in advance of the final audit visit.
- Exploring options for early testing of additions and disposals and an early review of accounting policies disclosure.





# Value for Money

## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2017/18 this is based on the overall evaluation criterion:

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

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

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

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

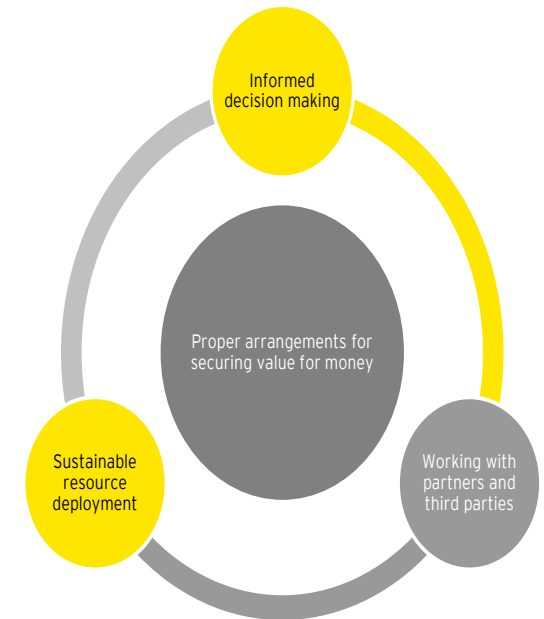
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

**Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks for 2017/18.**

We note that the Council is considering plans that could involve the demolition of the existing Town Hall and the construction of a new Town Hall, affordable housing and a heat distribution network. At this stage the plans are insufficiently advanced to constitute a significant Value for Money risk, but we will monitor their progress throughout the audit and as part of our audit planning for 2018/19.





04

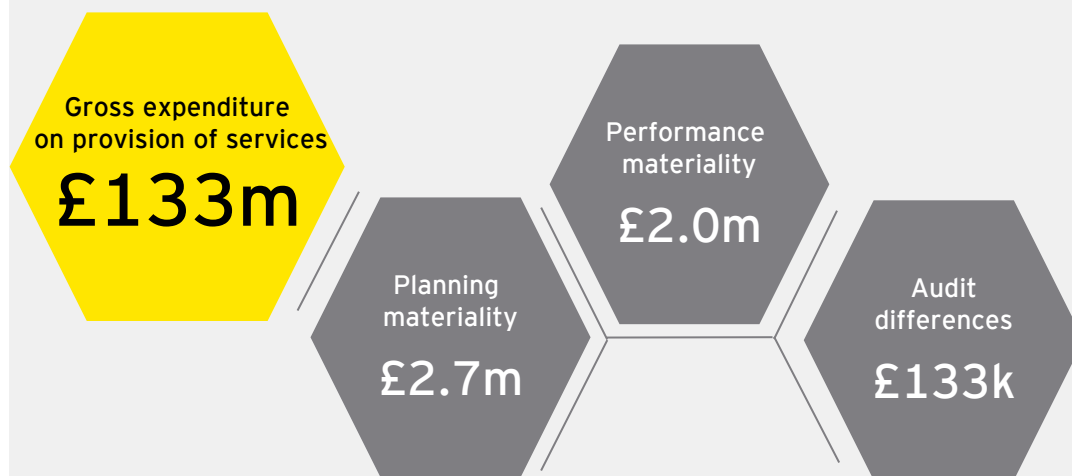
# Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2017/18 has been set at £2.7m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on provision of services is the area of biggest interest to the users of the Council's accounts. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

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

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.0m which represents 75% of planning materiality. This reflects our experience that draft accounts have in previous been of a reasonable quality.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account, and collection fund that have an effect on income or that relate to other comprehensive income.

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

**Specific materiality** - We have set a materiality of £1 for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.





**05**

# Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

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

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

# Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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





06

# Audit team



## Audit team

Paul King  
Associate Partner

Jo Taylor  
Audit Manager

Sejal Patel  
Lead Auditor

## Use of specialists

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

Area	Specialists
Valuation of Property, Plant and Equipment and Investment Properties	Gerald Eve, Wilks Head and Eve and EY Estates
Pensions disclosure	Hymans Robertson, PWC and EY Actuaries

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

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

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





07

# Audit timeline







## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November 2017		
Walkthrough of key systems and processes	November 2017		
Testing of routine processes and controls Interim audit testing	February and March 2018		
Audit Committee meeting	6 <sup>th</sup> March 2018	Audit Committee	Audit Planning Report and Interim audit update
Year end audit	June 2018		
Audit Completion procedures	July 2018		
Audit Committee meeting	25 <sup>th</sup> July 2018	Audit Committee	Audit Results Report Audit opinions and completion certificates Annual Audit Letter



08

# Independence



## Relationships, services and related threats and safeguards

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

### Overall Assessment

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

### Self interest threats

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

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services were planned. No additional safeguards were required.

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

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

## Relationships, services and related threats and safeguards

### **Self review threats**

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

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

### **Management threats**

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

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

### **Other threats**

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

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



## Other communications

### EY Transparency Report 2017

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 ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>



09

## Appendices

