London Borough of Tower Hamlets
Audit planning report

Year ended 31 March 2024

30 September 2024

Building a better working world

Audit Committee
London Borough of Tower Hamlets
Town Hall
160 Whitechapel Road E11BJ

30 September 2024

Dear Audit Committee Members

Audit planning report

Attached is our audit planning report for the forthcoming meeting of the Audit Committee. The purpose of this report is provide the Audit Committee of London Borough of Tower Hamlets ('the Council') with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

This report summarises our assessment of the key issues which drive the development of an effective audit for the Council. We have aligned our audit approach and scope with these. The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. We have been working with the system leaders to understand what their expectations will be on all auditors to implement the government's policy proposals effectively. As you will be aware the legislation to implement the backstop dates was laid in Parliament on 9 September 2024 and will come into force on 30 September. To ensure that we fully comply with the guidance given the relative proximity of the backstop dates and support an effective reset of the system across 2023/24 and 2024/25, it is clear that we, and other local audit firms will have to make difficult prioritisation decisions in how to best deploy finite audit resources.

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

We draw Audit Committee members and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A). We also draw your attention to the risk rating that we have applied to the audit of the Council, being the highest rating we are able to set an audit at. Further details around the factors that have led to this, and the implications of the rating, are set out in this report.

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 10 October 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

Enc

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of London Borough Tower Hamlets. Our work has been undertaken so that we might state to the Audit Committee and management of London Borough of Tower Hamlets 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 London Borough of Tower Hamlets for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

Context for the 2023/24 audit – Ministry of Housing, Communities and Local Government (MHCLG) and Financial Reporting Council (FRC) measures to address local audit delays

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

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

Following the Minister's announcement on 30 July 2024 on the Government's policy proposal for addressing the audit backlog, the legislation to enact the reset and recovery of the system was laid in Parliament on 9 September 2024. This includes:

- Changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28. These are:
  - Financial years up-to-and-including 2022/23: 13 December 2024
  - Financial year 2023/24: 28 February 2025
  - Financial year 2024/25: 27 February 2026
  - Financial year 2025/26: 31 January 2027
  - Financial year 2026/27: 30 November 2027
  - Financial year 2027/28: 30 November 2028
- The National Audit Office (NAO) has proposed amendments to the Code of Audit Practice to :
  - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
  - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.

As a result of the system wide implementation of backstop dates we understand that your predecessor auditor is expecting to issue a disclaimer of opinion on the Council's open prior year audits up to 2022/23. The proposed disclaimer of the Council's financial statements for 2020/21, 2021/22 and 2022/23 will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit opinion in 2023/24 and subsequent years during the recovery phase.

The changes proposed by Government will have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We have highlighted those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of this Audit Planning Report.

Overview of our 2023/24 audit strategy

Responsibilities of Council management and those charged with governance

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

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

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

Overview of our 2023/24 audit strategy

Duties and Overall Engagement Risk Rating and potential use of Auditors' Additional Powers

Our client acceptance procedures have assigned an overall risk rating of "Close Monitoring" to the audit of the Council. This is our highest risk rating and has consequences on the level of procedures we are required to perform to complete and conclude the audit. The risk factors driving this designation are:

- The prominence of the Council in relation to the previous removal from office of the Council's Mayor. (Close Monitoring Risk)
- The decision taken by DLUHC (now MHCLG) to send Best Value Inspectors to the Council. (Higher Risk)
- The last audit where an opinion was provided was 2019/20. The opinions for 2018/19 and 2019/20 include qualifications in relation to the preparation of group financial statements, the net pension liability, officers' remuneration and related parties. It is also anticipated that the 2020/21, 2021/22 and 2022/23 financial statements will be subject to a disclaimer of opinion. Although there are sector-wide issues driving audit delays, the volume of outstanding years for the Council increases the risk of financial controls not operating effectively. (Moderate Risk)
- The 2018/19 and 2019/20 report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources being qualified. (Moderate Risk)

In response to the risk designation of this audit we have applied the following safeguards:

- The engagement has been placed on the UK&Ireland Watchlist for engagements with higher risk criteria to ensure that your engagement has access to the Watchlist coaching support. The coaching process involves three panels at planning, interim and year end phase, where representatives from EY's Professional Practice Directorate , Audit Quality and key members of the engagement team discuss progress, any challenges or areas where the team may need additional support.
- The audit has been assigned an experienced quality review partner (EQR – Engagement Quality Review). The objective of the EQR is to provide an objective evaluation, on or before the date of the engagement report, of the significant judgments the engagement team made, and the conclusions reached thereon.
- Assignation of an IFRS pre-issuance technical review. The purpose of an IFRS pre-issuance technical review for audit engagements is to determine that the financial statements are in compliance with IFRS Accounting Standards, IFRIC Interpretations, EY policies, and the CIPFA Code.

After the completion of our acceptance procedures, we also became aware of two separate potential incidences of Non-Compliance with Laws and Regulations, for which we have engaged our forensics team to undertake procedures. More information on this is outlined in Section 6 and also Appendix G of this report.

Due to the potential issues that could arise as a result of the factors outlined above, we will remain alert to our responsibilities under Auditor Guidance Notes 4 and 7 (AGN04 and AGN07) and consider whether we, at any time, need to use any of our discretionary powers, not limited to issuing a report in the public interest. When considering whether, how and when to report, we will consider not only the significance of the matter but;

- whether the Council itself recognises the need to address a concern and is taking appropriate action in a timely way;
- what information is already in the public domain and whether there is merit in bringing the matter to the attention of the public; and
- whether previous reporting has been acted upon and whether more prominent reporting – such a statutory recommendation or a report in the public interest – is necessary.

The 2020 Code requires auditors to raise any significant weaknesses in respect of VFM arrangements promptly with those charged with governance at the body.

Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the 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	Details
Management override: Misstatement due to fraud or error	Fraud risk	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in expenditure recognition: Inappropriate capitalisation of revenue expenditure	Fraud Risk/ Significant risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed that one of the most likely ways this risk may manifest is through the inappropriate capitalisation of revenue expenditure.
Risk of fraud in revenue recognition: Overstatement of Fees, Charges and Other Service Income and Short-term Debtors (excluding collection fund debtors)	Fraud Risk/ Significant risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grant income, where management has more opportunity to manipulate the period in which the income is reported. Specifically, our risk is focused on the occurrence of other income (including fees and charges, dwelling rentals and other income), where management may have overstated income in the current financial year. This is likely to occur around the end of the financial year (i.e. bringing forward income from the subsequent year) and would also lead to an overstatement of Debtors (excluding collection fund debtors), therefore we associate this risk to that balance too.
Risk of fraud in expenditure recognition: Understatement of other operating expenditure and associated accruals balances	Fraud Risk/ Significant risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We assess that this risk manifests itself in the understatement of expenditure (completeness of expenditure and associated accruals balances) in order to manage the Council's financial position. We consider this risk does not apply to payroll. This could also extend to non-recognition of required provisions.
Disclosure of related parties and associated transactions	Fraud risk	As noted in previous years, the Council has received a qualified audit opinion where the Council's former auditor was unable to obtain sufficient appropriate audit evidence concerning the required disclosures in this area. Due to the sensitive nature of related party declarations and the associated disclosures required by the Code, there is increased risk of a material misstatement arising as a result of insufficient data in this area and any breakdown in the controls that should monitor disclosure of related parties and accompanying transactions. This can increase the risk of fraud within the organisation.

Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the 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	Details
Private Finance Initiative	Significant risk	The Council has three PFI and Lease arrangements associated with the Mulberry and Grouped Schools schemes and the Barkantine Heat and Power scheme. These are complex, material transactions and there is a risk that the PFI model is incorrect and therefore the associated accounting treatment and disclosures are not correctly reflected in the financial statements.
Assurance over opening balances	Significant risk	The predecessor auditor has indicated that they are likely to disclaim their opinion for all years between 2020/21 and 2022/23. This means that we will need to perform additional work over opening balances reflecting the risk that unaudited balances may be inappropriately recognised or valued incorrectly, where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management. The measures to address local audit delays, including the implementation of backstop dates and the rebuilding of assurances over multiple years, will lead to modifications in our audit opinion on opening balances.
Assessment of the Group Boundary	Significant risk	The Council has a controlling interest in several organisations, the most significant being Tower Hamlet Homes, King George's Field and Seahorse Homes. The Local Authority Accounting Code of Practice requires the Council to prepare group financial statements to consolidate the Council's interests, unless these interests are considered not material. The Council conducts an annual review to consider its group boundary and whether its interest in private companies are material; and consequently, whether group financial statements are required. In previous years, the Council has received a qualified audit opinion for its failure to prepare group financial statements which consolidate the results and financial position of its subsidiary undertakings. In the first year of preparing group financial statements, combined with a risk that an incorrect assessment of the group boundary is undertaken, there is a risk that the financial statements may be prepared on an incorrect basis.
Valuation of land and property	Significant risk	Land and buildings represent significant balances in the Council's financial statements and are subject to valuation on a periodic basis. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year end balances recorded in the balance sheet. We will specifically focus on assets where a higher degree of estimation uncertainty exists: ➢ Depreciated Replacement Cost (specialised operational assets for which an active market does not exist); ➢ Fair Value (surplus assets valued at the price that would be received to sell an asset); and ➢ Existing Use Value (operational assets for which there is an active market to provide comparable evidence, including those Council Dwellings adjusted for Social Housing use). The Council engages external property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements.

Overview of our 2023/24 audit strategy

The following ‘dashboard’ summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the 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	Details
Minimum revenue provision	Higher Inherent risk	Local authorities are required to charge a Minimum Revenue Provision (MRP) to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP but need to ensure the calculation is ‘prudent’. With significant capital investment at the Council, there is a risk that provision has not been calculated in line with CIPFA guidance and does not consider or include all relevant balances.
Preparedness for implementation of IFRS 16: Leases	Higher Inherent risk	Local authority code board CIPFA LASAAC has confirmed that local authorities will need to implement IFRS 16 Leases from 1 April 2024. For the 2023/24 financial statements, the Council is required to assess the financial impact of these expected changes and disclose them in the financial statements.
Pension Liability/Asset Valuation	Higher Inherent risk	The Local Authority Accounting Code of Practice and IAS19 require the Council to make disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Previous audit opinions have been qualified due to errors identified in membership data used to calculate the pension liability.

Overview of our 2023/24 audit strategy

Group and Council Materiality

Planning materiality

£7m

Group Materiality has been set at £6.964 million which represents 0.5% of 2023/24 draft gross expenditure on provision of services.

Council Materiality has been set at £6.960 million.

0.5% represents the lowest level percentage within a range set out in our audit methodology. The public profile of the Council and prior year qualifications of audit opinions as well as the recent Best Value Inspection indicates there is heightened interest in the Council and their financial statements.

Performance materiality

£3.5m

Group Performance materiality has been set at £3.481 million, which represents 50% of materiality.

Council Performance materiality has been set at £3.480 million.

The use of 50% of planning materiality to undertake our audit testing is reflective of:

- The designation of the audit as close monitoring.
- This being a first-year audit.
- The last audit where an opinion was provided was 2019/20. The opinions for 2018/19 and 2019/20 include qualifications in relation to the preparation of group financial statements, pensions, officers' remuneration and related parties. It's also anticipated that the 2020/21, 2021/22 and 2022/23 financial statements will be subject to disclaimers of the opinions.
- Observations by your predecessor auditor in their reporting for 2018/19 and 2019/20 where they also identified material amendments to the financial statements, combined with value for money qualifications on the quality and timeliness of the preparation of the financial statements, which also resulted in significant weaknesses being reported to those charged with governance.
- Changes in personnel, especially those in finance related roles.
- Observations on the control environment from internal audit – we note the high number of limited assurances reports and findings across recent years.

As such, there is no recent evidence to demonstrate that the risk of error across the financial statements would be sufficiently reduced, and therefore we must apply 50% in determining our performance materiality.

Audit differences

£0.35m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account, collection fund) greater than £0.348 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2023/24 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

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.

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

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to the Council. It is, nevertheless, important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements. We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Audit scope and approach

We intend to take a fully substantive audit approach.

The Government proposals to re-establish the local authority framework on a more sustainable basis have an impact on the scope of the audit. As set out on slide 11, where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this has an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase. Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Due to the timing of the 2023/24 backstop date (February 2025) and progress of the audit to date we will be unable to gain assurance over opening balances, with the rebuilding of assurances taking place over multiple years (as set out in the Minister's announcement in July 2024). This will lead to a modification in our audit opinion for 2023/24.

We have set out in this executive summary the impact on the scope of our audit, including the increased level of audit risks we have identified during our audit planning process.

Overview of our 2023/24 audit strategy

Value for Money

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

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

We will provide a commentary on the Council's arrangements against three reporting criteria:

- 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.

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

Timeline

In Section 7 we include a provisional timeline for the audit which has been agreed with management. Our audit resources have been planned in line with this and to ensure compliance with issuing an audit opinion by the 2023/24 backstop date of 28 February 2025. All parties need to work together to ensure this timeline is adhered to.

We recognise that the Council has not delivered to a traditional financial statement preparation and audit timeline for a number of years and has also needed to undertake work to address issues arising from both internal and external audit. Whilst there has been engagement and cooperation between the teams, including frequent meetings to discuss progress, key risks and emerging issues, there have been a high number of audit requests to date that have been received past the agreed timelines and that remain outstanding. There is a risk that issue becomes compounded as more of our sampling requests for audit testing, and associated queries are submitted.

We have raised with the Corporate Director of Resources, the increased likelihood of an impact on our ability to finalise all audit procedures within our assigned resource before the February 2025 backstop date. As noted in the timetable set out in Section 07, the resource we have allocated to perform audit fieldwork, is assigned to the end of November. We continue to monitor this situation closely and may need to evaluate which areas of the financial statements we direct our resources to, with a view to ensuring completion of specific balances to assist with the rebuilding of assurances in future years. This means there is a risk that we will need to modify our opinion in the current year to ensure compliance with the Government imposed backstop date. As the period of our booked resource draws to a close, we will make an assessment in mid-to-late-November on the extent of the impacted balances.

Key Audit Partner and senior audit team

Partner

Stephen Reid

Stephen has over 25 years' experience providing a combination of internal and external audit and other assurance services across a range of publicly funded and not-for-profit clients, including the NHS, local and central government and higher education. Stephen leads our UK Government and Public Sector audit team at EY.

Partner

Hayley Clark

Hayley has over 15 years' experience across all of the sectors in which EY's Government and Public Sector team operate and leads our Birmingham office team.

Senior Manager

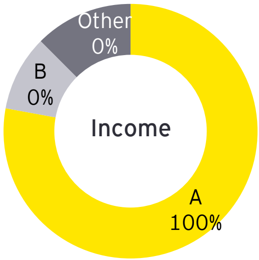
Dan Spiller

Dan is an experienced Senior Manager who has worked across a number of unitary councils, borough councils, higher education and NHS clients over the past 6 years at EY.

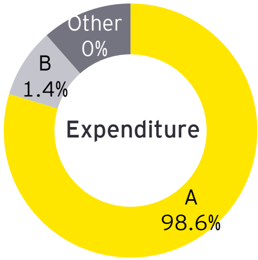
Overview of our 2023/24 audit strategy

Group Audit scope

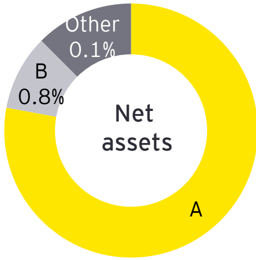
Through our fieldwork we will cover the following percentages, by full scope (A) and specific scope (B) audits, of Income, Expenditure and Net Assets. All components are based in the UK.



100%



100%



99.9%

- We have specifically considered the scope of our audit in response to the identified risks above, which has impacted the locations in which we performed our work, and the extent of procedures performed in these areas.
- For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.
- Section 5 of this report sets out more detail on our proposed approach and the subsidiaries covered by our testing.
- We intend to take a fully substantive audit approach.

02 Audit risks

Our response to significant risks

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

Management Override: Misstatements due to fraud or error *

What is the risk?

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

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

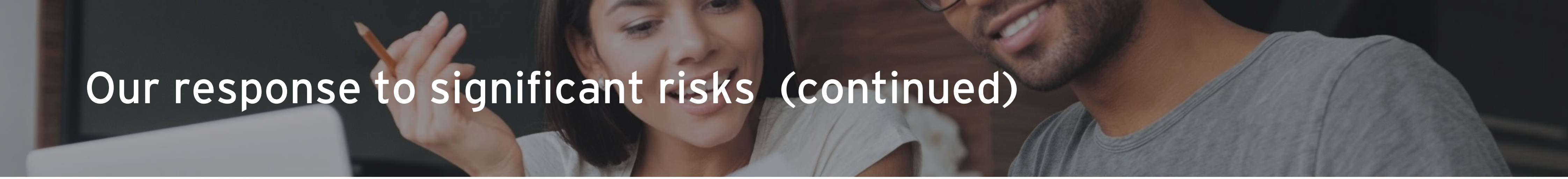
We identify and respond to this fraud risk on every audit engagement.

What will we do?

We will respond to this risk by:

- Identifying fraud risks during the planning stages;
- Inquiring of management and Internal Audit about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance (the Audit Committee) of management's processes over fraud;
- Discussing with those charged with governance the risks of fraud in the entity;
- 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;
- Undertaking procedures to identify significant unusual transactions; and
- Considering whether management bias was present in the key accounting estimates and judgments in the financial statements.

Our procedures in this area will be supported by the use EY forensic specialists.



Our response to significant risks (continued)

Risk of fraud in expenditure recognition: Inappropriate capitalisation of revenue expenditure *

Financial statement impact

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

- Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.
- Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

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

What is the risk?

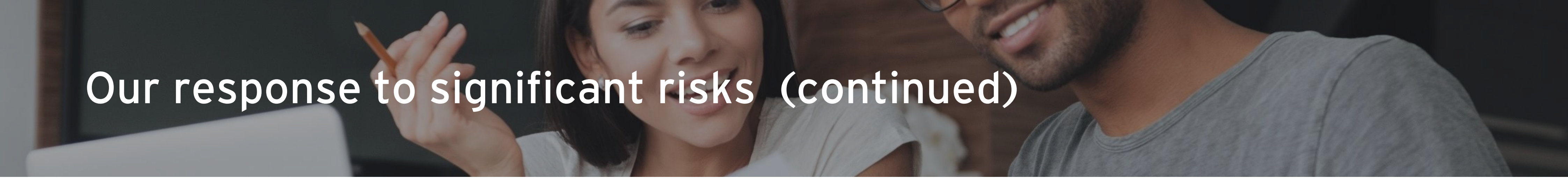
Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed that one of the most likely ways this risk may manifest is through the inappropriate capitalisation of revenue expenditure.

What will we do?

We will:

- Test Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is capital in nature. This will include testing items exceeding a threshold and a representative sample of all items below that level.
- Assess whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- Test items of REFCUS exceeding a testing threshold to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. We will consider the need to perform a sample on the remaining balance of REFCUS if our testing of key items has not lowered our audit risk to an acceptably low level.
- Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.



Our response to significant risks (continued)

Risk of fraud in revenue recognition: Overstatement of Fees, Charges and Other Service Income.
Overstatement of Short-term Debtors *

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue recognition could affect the income and expenditure accounts.

These accounts had the following balances in the draft financial statements:

- Income from Dwellings: £117 million
- Fees, charges and other service income: £150 million
- Short-term Debtors excluding collection fund: £148 million

What is the risk?

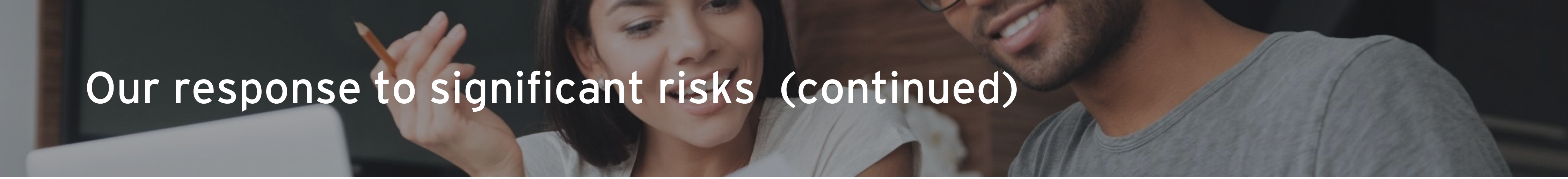
Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grant income, where management has more opportunity to manipulate the period in which the income is reported. Specifically, our risk is focused on the occurrence of other income (including fees and charges, dwelling rentals and other income), where management may have overstated income in the current financial year.

This is likely to occur around the end of the financial year (i.e. bringing forward income from the subsequent year) and would also lead to an overstatement of Debtors (excluding collection fund debtors), therefore we associate this risk to that balance too.

What will we do?

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

- Understanding and challenging management on any accounting estimates or judgements on income recognition for evidence of bias.
- Performing overall analytical review procedures to identify any unusual movements or trends for further investigation.
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those manual entries that increase income and/or accrued debtors. We will focus our testing on months 11 and 12 due to the risk of this being more likely to occur close to the year end.
- Undertaking a monthly trend analysis using our data analytics tools to identify any unusual movements in balances for further analysis and testing.
- Performing a month-by-month trend analysis on rentals from dwellings income and performing a reconciliation between the dwelling rental income recognised and the rental system.



Our response to significant risks (continued)

Risk of fraud in expenditure recognition: Understatement of other operating expenditure and associated accruals balances *

Financial statement impact

Misstatements that occur in relation to the risk of fraud in expenditure recognition could affect the expenditure accounts and associated liability (accruals) balance.

These accounts had the following balances in the draft financial statements:

- Non-pay operating expenditure (Other service expenses) : £773 million
- Creditors (less Tax, Social Security and Collection Fund) : £175 million

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

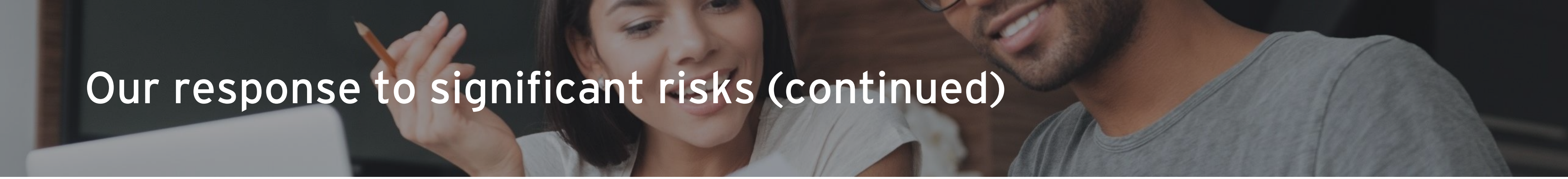
We assess that this risk manifests itself in the understatement of expenditure (completeness of expenditure and associated accruals balances) in order to manage the Council's financial position. We consider this risk does not apply to payroll. This could also extend to non-recognition of required provisions.

We consider the significant risk does not apply to payroll.

What will we do?

We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:

- Perform unrecorded liabilities testing for at least 3 months after year end. We will taper our testing threshold to recognise that the risk diminishes the further away from the year-end we move.
- Perform testing on completeness of provisions based on our understanding of the Council.
- Perform cut off testing with populations of purchase order invoices around year end to determine whether transactions have been correctly recorded within the correct period.
- Undertaking a monthly trend analysis using our data analytics tools to identify any unusual movements in balances for further analysis and testing.
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and identify any unusual trends or potential fraudulent movement of expenditure between accounting periods.



Our response to significant risks (continued)

Disclosure of related parties and associated transactions *

Financial statement impact

The CIPFA Code of Practice on Local Authority Accounting states that Authorities shall identify related party relationships and transactions, identify outstanding balances between the authority and its related parties, and identify the circumstances in which disclosures

are required.

In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances". Materiality should thus be judged from the viewpoint of both the authority and the related party.

What is the risk?

As noted in previous years, the Council has received a qualified audit opinion where the former auditor was unable to obtain sufficient appropriate audit evidence concerning the required disclosures in this area.

Due to the sensitive nature of related party declarations and the associated disclosures required by the Code, there is increased risk of a material misstatement arising as a result of insufficient data in this area and any breakdown in the controls that should monitor disclosure of related parties and accompanying transactions. This can increase the risk of fraud within the organisation.

The Council Code of Conduct for Members sets out the expectation that Disclosable Pecuniary Interests are to be declared for all members and to include relevant partner's interests too.

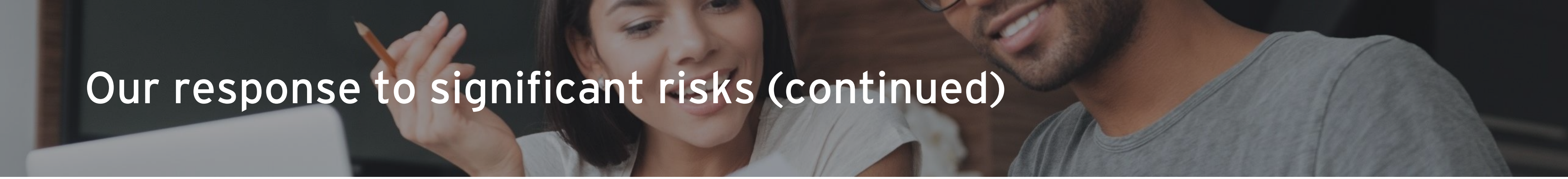
The Code of Conduct for Officers stipulates that staff should declare any interests, or those of family members or spouses, in any Contracts under consideration by the Council. Officers over scale 6 should hold no other interests unless expressly approved by the Chief Executive.

What will we do?

We will:

- Obtain and scrutinise declarations made in the year, reviewing the recency and completeness of declarations received;
- Understand the processes that management perform to verify and analyse those declarations;
- Perform procedures to test the completeness and accuracy of the declarations made; and
- Review for accuracy the disclosures made in the financial statements.

Our procedures in this area will be supported by the use of EY forensic specialists.



Our response to significant risks (continued)

Private Finance Initiative / PFI

Financial statement impact

The Local Authority Accounting Code of Practice requires that PFI schemes should be accounted for on the basis of IFRIC 12 "Service Concessions"

- Liability value as at 31 March 2024: £19.6 million

What is the risk?

The Council has three PFI and Lease arrangements associated with the Mulberry and Grouped Schools schemes and the Barkantine Heat and Power scheme.

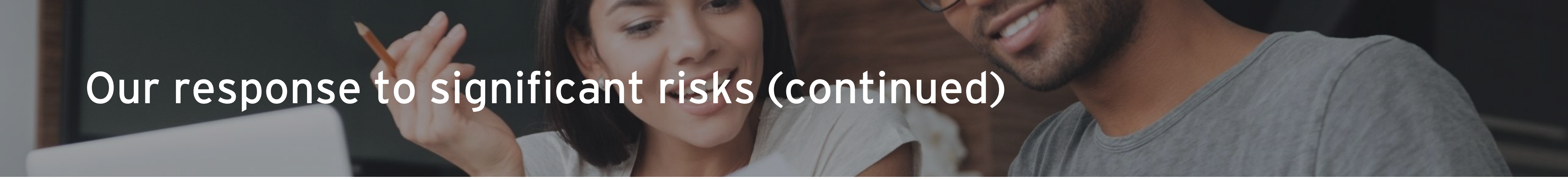
The Council's liability in relation to its PFI schemes as at 31 March 2024 is reported in the draft financial statements as £19.6 million. This value is derived from complex models which reflect a number of assumptions which may change over the life of the contract.

These are complex, material transactions and there is a risk that the PFI model is incorrect and therefore the associated accounting treatment and disclosures are not correctly reflected in the financial statements.

What will we do?

We will:

- Confirm our understanding of the process of how the PFI models are maintained and updated; including how the output of the models are included within the Council's financial statement closing processes.
- Perform checks to ensure that any changes in the PFI arrangements and associated assumptions are reflected as updates to the financial models.
- Identify those inputs to the model which are estimates and undertake audit procedures to gain assurance over the reasonableness of these estimates.
- Engage EY's internal specialists to review the PFI model to ensure the inputs and accounting are in line with our expectations.
- Confirm that year end journal entries in relation to the PFI schemes have been processed accurately.



Our response to significant risks (continued)

Assurance over opening balances

Financial statement impact

All balance sheet accounts have an opening balance to be considered. Balances transacting through the Comprehensive Income and Expenditure Statement can also be impacted by the reversal of balances accrued at the date of the start of the accounting period being audited.

What is the risk?

As 2023/24 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510.

The predecessor auditor has indicated that they are likely to disclaim their opinions for all years between 2020/21 and 2022/23. This means that we will need to perform additional work over opening balances.

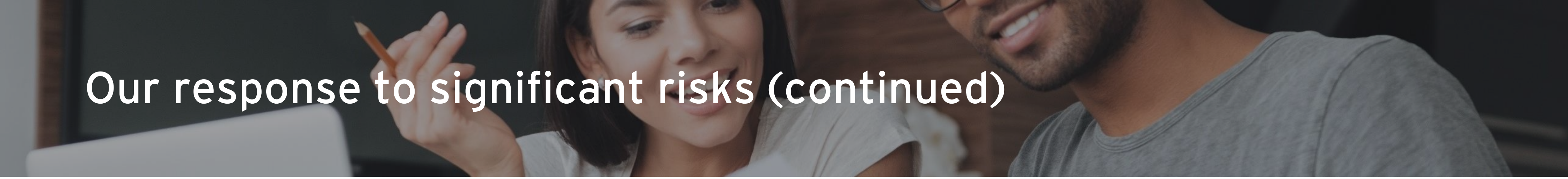
The measures to address local audit delays, including the implementation of backstop dates and the rebuilding of assurances over multiple years, will lead to modifications in our audit opinion on opening balances.

Where we are able to perform meaningful levels of work on opening balances in the period there is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.

What will we do?

We will:

- Consider which opening balances are critical to our work to be able to obtain sufficient and appropriate audit evidence for the 2023/24 financial statements.
- Agree the opening balance sheet position to the underlying financial records.
- Review the prior year working papers by the departing auditor, where we deem this to be beneficial, to understand the procedures completed and if they need to be supplemented or followed up in any way.
- Consider unusual material transactions posted by management in the first accounting periods of 2023/24, which may indicate correction of previous errors, and understand the basis for these transactions.



Our response to significant risks (continued)

Preparation of Consolidated Group financial statements

Financial statement impact

The Council has material group undertakings for its subsidiaries including Tower Hamlets Homes Limited and King George's Field, Mile End. Under the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom the Authority is required to prepare group accounts as its interests are material in aggregate.

What is the risk?

The Council has a controlling interest in several organisations, the most significant being Tower Hamlet Homes, King George's Field and Seahorse Homes. The Local Authority Accounting Code of Practice requires the Council to prepare group financial statements to consolidate the Council's interests, unless these interests are considered not material. The Council conducts an annual review to consider its group boundary and whether its interest in private companies are material; and consequently, whether group financial statements are required. In previous years, the Council has received a qualified audit opinion for its failure to prepare group financial statements which consolidate the results and financial position of its subsidiary undertakings.

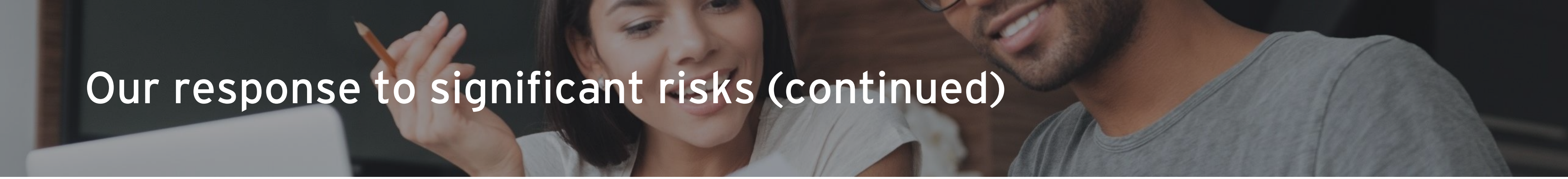
The Council has prepared Group financial statements for the first time in 2023/24.

In the first year of preparing group financial statements combined with a risk that an incorrect assessment of the group boundary is undertaken, there is a risk that the financial statements may be prepared on an incorrect basis.

What will we do?

We will:

- Consider the Council's assessment of its group boundary and consider the significance of the components to the group financial statements.
- Review and test the Council's process for consolidation, consistency of accounting policies and quality review, and consider the appropriateness of inter-company elimination.
- Review the completeness of the disclosures in the group financial statements to ensure they are materially accurate and complete.



Our response to significant risks (continued)

Valuation of land and property

Financial statement impact

Misstatements that occur in relation to the valuation of land and property could affect the balance sheet by materially misstating the valuation of these assets; and the income and expenditure account via the impact on depreciation charges.

Amounts reported in the draft financial statements (per Note 14) were:

- Land and buildings : £1,640 million;
- Council dwellings £1,216 million;
- Surplus assets £29 million

What is the risk?

Land and buildings represent significant balances in the Council's financial statements and are subject to valuation on a periodic basis. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year end balances recorded in the balance sheet. We will specifically focus on assets where a higher degree of estimation uncertainty exists:

- Depreciated Replacement Cost (specialised operational assets for which an active market does not exist);
- Fair Value (surplus assets valued at the price that would be received to sell an asset); and
- Existing Use Value (operational assets for which there is an active market to provide comparable evidence, including those Council Dwellings adjusted for Social Housing use).

The Council engages external property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements.

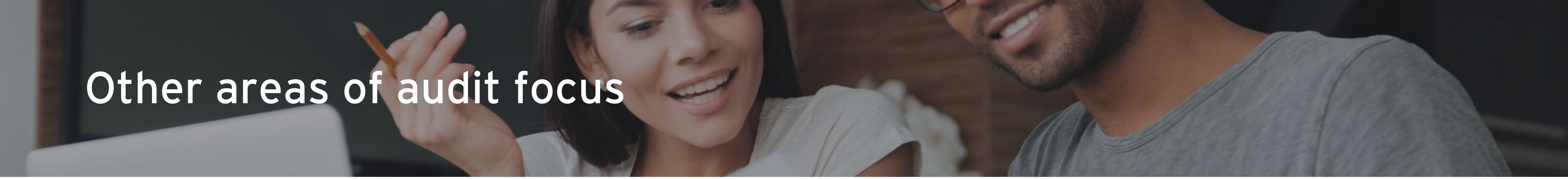
The Council's asset base is significant, and the outputs from the valuer are subject to estimation, therefore there is a risk that fixed assets may be under/overstated impacting on their valuation in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying estimates.

What will we do?

We will:

- Test that assets have been classified and valued on an appropriate basis.
- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work, to ensure these are consistent with accounting standards and that the scope of the work is appropriate.
- Perform appropriate tests over the completeness and appropriateness of information provided to the valuer.
- Sample test and challenging the key asset information and assumptions used by the valuers in performing their valuation; for example, floor plans based on price per square metre.
- Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Consider any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Review assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated.
- Consider changes to useful economic lives as a result of the most recent valuation.
- Test accounting entries have been correctly processed in the financial statements.

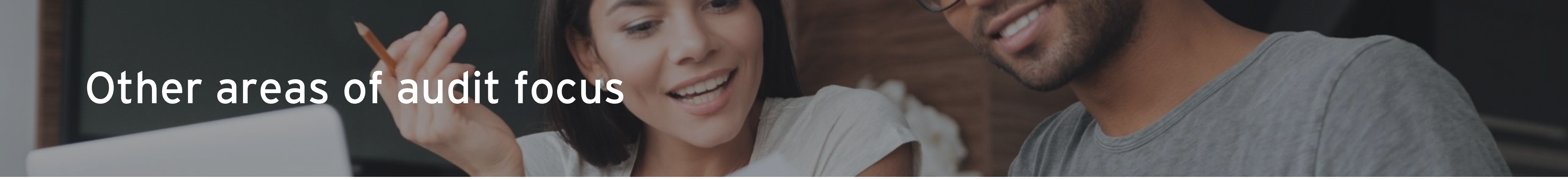
We will be engaging EY valuation specialists to assist the audit team on a sample of assets. This sample will be based on our assessment of the assets that are subject to a higher degree of risk for their valuations as at 31 March 2024, for example, material assets which are valued at market based fair value.



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 risk/area of focus, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Minimum Revenue Provision If the Minimum Revenue Provision (MRP) were understated, it would have the impact of overstating the General Fund balance and understating the capital adjustment account. Local authorities are required to charge MRP to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance. With significant capital investment at the Council, there is a risk that provision has not been calculated in line with CIPFA guidance and does not consider or include all relevant balances.	We will: ➢ Understand the MRP Policy in place at the Council with respect to both the General Fund and the Housing Revenue Account. ➢ Engage EY's internal specialists to review the policy against CIPFA's guidance to ensure compliance, also performing procedures to gain assurance that the Council is applying the policy correctly.
Preparedness for implementation of IFRS 16: Leases CIPFA LASAAC has confirmed that local authorities will need to implement IFRS 16 Leases from 1 April 2024. For the financial statements in 2023/24, the Council is required to make an assessment of the financial impact of these expected changes.	We will: ➢ Review the preparation work that the Council has carried out for the implementation of IFRS 16 on 1 April 2024. ➢ Review the disclosures within the financial statements to ensure they are in line with the CIPFA Code.



Other areas of audit focus

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

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

Pension Liability/Asset 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 the Council.

The 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 2024 this totalled £178.5 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

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.

Previous audit opinions have been qualified due to errors identified in membership data used to calculate the pension liability. Although some errors had been corrected; the volume of member records involved meant that the former auditor was unable to determine whether any further adjustments to these amounts were necessary.

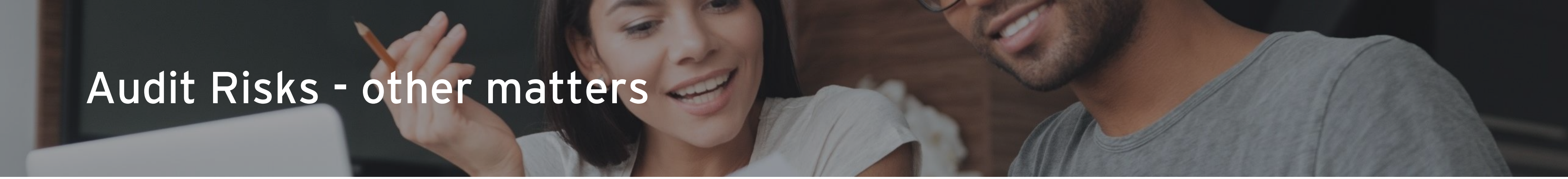
Our response: Key areas of challenge and professional judgement

We will:

- Liaise with the auditors of London Borough of Tower Hamlets Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.
- Perform procedures to evaluate whether the ceiling has been applied correctly in respect of the Council's share of Pension Fund assets.
- Assess 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.
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model.
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

Our testing will include procedures to establish whether membership data provided to the actuary is consistent with the underlying data of the scheme.



Audit Risks - other matters

We have identified other areas of the audit where we will perform substantive procedures that are likely to impact our reporting to you as a committee.

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

Going Concern disclosure

The financial landscape for local authorities remains challenging; the Council will need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation of the accounts. It will also need to make an appropriate disclosure in the financial statements of that consideration and assessment. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.

Our response: Key areas of challenge and professional judgement

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- 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 Council's 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.

03 Value for Money risks

Value for Money

Council's responsibilities for value for money

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.

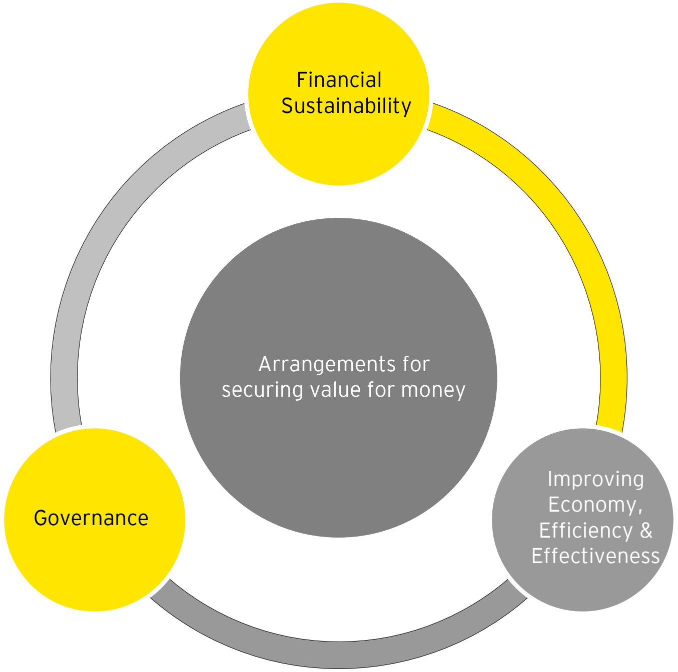
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Auditor Responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the 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.
- 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.



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

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

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

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

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

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

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

We should also be informed by a consideration of:

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

Value for Money

Responding to identified risks of significant weakness

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

Reporting on VFM

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

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

Status of our 2023/24 VFM planning

We have completed our initial VFM (value for money) risk planning work, which is subject to executive review procedures, where we have considered:

- Our entity level controls and understanding the business assessment
- The Council's Risk Register
- The Annual Governance Statement
- Council meeting minutes
- Our planning meetings with management
- Key financial and budget information
- Key performance reports
- Internal audit reports
- Information from local and national media
- Findings of other inspectorates, review agencies and other relevant bodies including a Corporate Peer Challenge and the Scope of the Best Value Inspection.

We have identified risks of significant weakness in the Council's arrangements that the Council did not have proper arrangements to secure economy, efficiency and effectiveness on its use of resources. The risks of significant weakness are set out on the following pages.

Value for Money

Value for Money Risks

The following table summarises the risk of significant weaknesses identified during the course of our planning procedures. We will keep our understanding of arrangements and risks identified during planning under review. We will update our work to reflect any emerging risks or findings that may suggest an additional significant weakness in arrangements and communicate these to you.

What is the risk of significant weakness?	What arrangements does this impact	Details and what we will do
Arrangements for reliable and timely financial reporting that supports the delivery of strategic priorities to support informed decision making In previous years (2018/19 and 2019/20) the financial statements audit opinion was qualified for a number of reasons. The Value for Money conclusion issued also contained an 'except for' opinion in relation to the number of issues and amendments associated with the financial statements.	Governance	Previously the financial statements (2018/19 and 2019/20) have been qualified for the following reasons: ➢ Failure to prepare group financial statements ➢ Pension liability errors in membership data used ➢ Related party disclosures interests of elected members and members of their close family were not obtained ➢ Officers' remuneration information from schools We will: ➢ Discuss the causes of previous financial statement qualifications and obtain an update of actions taken by management to reduce the likelihood of similar qualifications occurring in 2023/24. ➢ Understand the steps taken by management to improve processes to obtain the required information to prepare financial statements and take into account experiences and observations in undertaking the 2023/24 audit.
PFI contract management The Council is party to two Private Finance Initiative (PFI) schemes in respect of the design, construction, maintenance and servicing of 28 schools - the Mulberry and Grouped Schools schemes - until the years 2029 and 2028 respectively. The Council has a third PFI contract, with an energy services company, to provide heating and hot water until October 2025.	Governance	The expiry phase of PFI contracts, including asset hand back and the transition to future services provision, presents additional risks, including potential operational disruption, lack of service continuity, financial loss and reputational damage. The effective management of the expiry process is a key challenge for authorities as the end of the contract grows close. The National Audit Office (NAO) found in its June 2020 report on PFI contract expiry that public sector bodies risk underestimating the time, resources and complexity involved in managing the end of PFI contracts. We will discuss with management the progress being made in identifying solutions for all three of the Council's PFI Schemes and assess the oversight that is being given to these projects to ensure that the process is effectively managed.

Value for Money

Value for Money Risks

The following table summarises the risk of significant weaknesses identified during the course of our planning procedures. We will keep our understanding of arrangements and risks identified during planning under review. We will update our work to reflect any emerging risks or findings that may suggest an additional significant weakness in arrangements, and communicate these to you.

What is the risk of significant weakness?	What arrangements does this impact	Details and what we will do
Arrangements to manage risks effectively and maintain a sound system of internal control In previous years (2018/19 and 2019/20) the financial statement audit opinions was qualified for a number of reasons. The Value for Money conclusion issued also contained an 'except for' opinion in relation to the number of issues and amendments associated with the financial statements. The financial statements for subsequent years are expected to be disclaimed with the delays to closing out the previous years' audits causing a significant knock-on effect to these periods.	Governance	Previously the financial statements (2018/19 and 2019/20) have been qualified for the following reasons: ➢ The finalisation and publication of the Council's statement of accounts for the year were significantly delayed and required a significant volume of corrections. ➢ In the Annual Governance Statement, the Council reported on significant governance issues identified from its annual review of effectiveness. ➢ The Annual Governance Statement reports that internal audit are under resourced. ➢ The Head of Internal Audit was not able to report on the Council's system of risk management in 2018/19. ➢ The Head of Internal Audit was able to provide only limited assurance in relation to 37% of the areas included in the 2018/19 internal audit programme. ➢ There were instances where recommendations in reports by external parties had not been actioned as implementation had not been tracked. We will: ➢ Consider the factors that led to the delays in the production of financial statements in previous years, including those yet to be concluded on, which were also delayed, and assess the processes that Council has put in place to closedown and produce financial statements in line with the national statutory deadline. ➢ Assess whether any audit adjustments identified in the course of our financial statements work are indicative of significant weaknesses. ➢ Review Internal Audit reports and the Head of Internal Audit Opinion, conducting discussions with key individuals in the Internal Audit team. We will pay particular attention to reports focusing on risk management and those parts of other reports that discuss service specific risk management arrangements.

Value for Money

Value for Money Risks

The following table summarises the risk of significant weaknesses identified during the course of our planning procedures. We will keep our understanding of arrangements and risks identified during planning under review. We will update our work to reflect any emerging risks or findings that may suggest an additional significant weakness in arrangements and communicate these to you.

What is the risk of significant weakness?	What arrangements does this impact	Details and what we will do
Insourcing of Council Services In the period, the Council has brought back in-house the services run by Tower Hamlets Homes and is currently expecting to insource leisure services in 2024/25.	Improving economy, efficiency and effectiveness	In August 2022, Cabinet approved plans to bring the management of seven leisure centres in-house when the current contract with leisure provider GLL expires in April 2024. On 1 November 2023 the Council became responsible for managing and maintaining Council houses that was a service previously provided by Tower Hamlets Homes which is a wholly owned subsidiary of the Council. We would expect that there has already been significant work performed including risk management, legal work and financial analysis relating to the insourcing of leisure services. We will seek the most up-to-date picture on the progress of this and review the decision-making process to-date. We will also review the steps the Council took to reach the decision to insourcing THH and whether there have been any lessons learned to be considered for the insourcing of leisure services.
Contract Management and Procurement The Council has identified potential overpayments made in relation to Homecare services. Internal Audit reviews throughout the period have regularly highlighted issues with procurement being a factor in findings, with improvements frequently appearing within recommendations.	Improving economy, efficiency and effectiveness	We have engaged colleagues within our forensics team to review a specific case where there has been a clear breakdown in procurement internal controls. We will consider findings from our financial statements audit work for any indicators that procurement controls are not operating effectively or are being circumvented. We will perform a review of significant contractual arrangements held by the Council, assessing against our other work if there are any omissions.

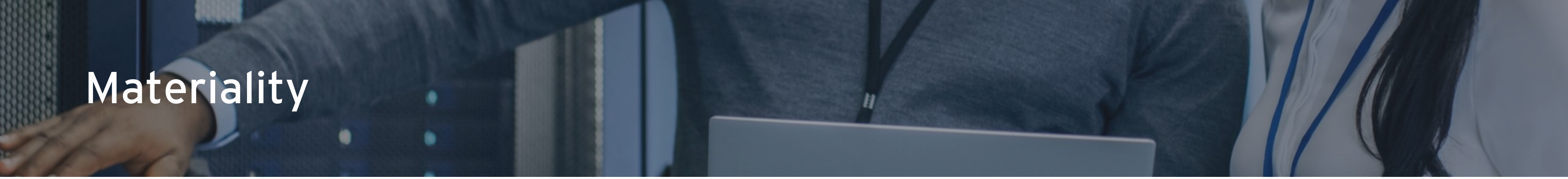
Value for Money

Value for Money Risks

The following table summarises the risk of significant weaknesses identified during the course of our planning procedures. We will keep our understanding of arrangements and risks identified during planning under review. We will update our work to reflect any emerging risks or findings that may suggest an additional significant weakness in arrangements and communicate these to you.

What is the risk of significant weakness?	What arrangements does this impact	Details and what we will do
Effectiveness of the Local Safeguarding Children Board, which was rated as inadequate Previously the VFM conclusion (in 2018/19 and 2019/20) was qualified for the following reason: An Ofsted inspection of the Council's services for children in need of help and protection, children looked after and care leavers undertaken in January and February 2017, which reported in April 2017, rated children's services, overall, as inadequate.	Improving economy, efficiency and effectiveness	We will seek and review all relevant updates from external agencies in respect to this service and assess progress made against action plans.
Best Value Inspection On 22 February, the then Secretary of State for Levelling Up, Housing and Communities appointed inspectors to undertake an inspection of Tower Hamlets Council under section 10 of the Local Government Act 1999. The Secretary of State decided to commission this inspection to provide him with direct, independent assurance that the Council is complying with its Best Value duty. This duty requires the Council to make arrangements to secure continuous improvement in the way in which its functions are exercised, with regard to economy, efficiency and effectiveness.	Improving economy, efficiency and effectiveness	In a letter dated 22 February 2024, the Deputy Director Local Government Stewardship at Department for Levelling Up, Housing and Communities wrote to the Council, setting out a wide-ranging remit for the attention of the Best Value Inspectors. We will closely review the inspection report, when published, and consider any findings or recommendations that are made.

04 Audit materiality



Materiality

Group materiality

For planning purposes, Group materiality for 2023/24 has been set at £6.96 million. This represents 0.5% of the Group's 2023/24 gross expenditure on provision of services. It will be reassessed throughout the audit process. This percentage is the lowest level we set for the audits of Local Authorities and is indicative of the risk rating we have assigned to the Council. We have provided supplemental information about audit materiality in Appendix F.

Gross expenditure on provision of services

£1,392.7m

- Planning materiality £6.96m
- Performance materiality £3.48m
- Component performance materiality £3.48m
- Audit differences £0.35m

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 £3.48 million which represents 50% of group materiality. This threshold is set at either 50% or 75% based on our expectation of errors at the Council. Due to issues noted in prior year qualifications, coupled with this being the first year that the Council has undergone a full audit since 2019/20, we are unable to state that we have a low expectation of errors, and our threshold here reflects that.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. Here we are referring to the Council as a standalone entity.

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

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

05 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

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

Our opinion on other matters:

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

Other procedures required by the Code:

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

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

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

Audit process and strategy

Audit Process Overview

Our audit involves:

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

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

Analytics

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

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

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

Internal audit

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

Risk assessment and the impact on our scope

Overall Engagement Risk Rating

Our client acceptance procedures have assigned an overall risk rating of "Close Monitoring" to the audit of the Council. This is our highest risk rating and has consequences on the level of procedures we are required to perform to complete and conclude the audit. This has been applied due to risk factors including:

- The decision taken by DLUHC (now MHCLG) to send Best Value Inspectors to the Council.
- The last audit where an opinion was provided was 2019/20. The opinions for 2018/19 and 2019/20 include qualifications in relation to the preparation of group financial statements, the net pension liability, officers' remuneration and related parties. It is also anticipated that the 2020/21, 2021/22 and 2022/23 financial statements will be subject to a disclaimer of opinion. Although there are sector-wide issues driving audit delays, the volume of outstanding years for the Council increases the risk of financial controls not operating effectively.
- The 2018/19 and 2019/20 report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources being qualified.
- The prominence of the Council in relation to the previous removal from office of the Council's Mayor.

Scope impact

The increased risk of the audit requires us to respond accordingly. In section 04 of this report we have set out the impact of the higher risk on our Planning and Performance Materiality levels. Both of these figures drive our sample selection and as such, having the lowest thresholds possible within our methodology will lead to lower key item thresholds above which we select "large" items for testing and our sample selection tool will also produce samples of increased volumes. This will increase the amount of work performed and we have indicated in Appendix B of this report that this will lead to an increased fee variation being submitted to PSAA ltd.

Further to increased substantive testing, we have also applied the following safeguards:

- The engagement has been placed on the UK&Ireland Watchlist for engagements with higher risk criteria to ensure that your engagement has access to the Watchlist coaching support. The coaching process involves three panels at planning, interim and year end phase, where representatives from EY's Professional Practice Directorate , Audit Quality and key members of the engagement team discuss progress, any challenges or areas where the team may need additional support.
- The audit has been assigned an experienced quality review partner (EQR – Engagement Quality Review). The objective of the EQR is to provide an objective evaluation, on or before the date of the engagement report, of the significant judgments the engagement team made, and the conclusions reached thereon.
- Assignation of an IFRS pre-issuance technical review. The purpose of an IFRS pre-issuance technical review for audit engagements is to determine that the financial statements are in compliance with IFRS Accounting Standards, IFRIC Interpretations, EY policies, and the CIPFA Code.

After the completion of our acceptance procedures, we also became aware of two separate potential incidences of Non-Compliance with Laws and Regulations, for which we have engaged our forensics team to undertake procedures. More information on this is outlined in Section 6 and also Appendix G of this report.

Risk assessment and the impact on our scope

How we may report issues following the conclusion of our work

Due to the potential issues that could arise as a result of the factors outlined above, we will remain alert to our responsibilities under Auditor Guidance Notes 4 and 7 (AGN04 and AGN07) and consider whether we, at any time, need to use any of our discretionary powers, not limited to issuing a report in the public interest. When considering whether, how and when to report, we will consider not only the significance of the matter but;

- whether the Council itself recognises the need to address a concern and is taking appropriate action in a timely way;
- what information is already in the public domain and whether there is merit in bringing the matter to the attention of the public; and
- whether previous reporting has been acted upon and whether more prominent reporting – such as a statutory recommendation or a report in the public interest – is necessary.

The 2020 Code requires auditors to raise any significant weaknesses in respect of VFM arrangements promptly with those charged with governance at the body.

Scope of our audit

Group scoping

Our audit strategy for performing an audit of a group is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope furth scope details on the next page.

1	A	Full scope audits
2	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
5	E	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

We have identified the Council as the sole full scope audit within the group.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Tower Hamlets Homes and King George's Field, Mile End, are the two components subjected to this scope within our plan.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

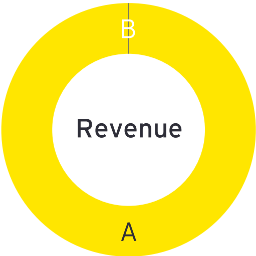
Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually or in aggregate, these components do not exceed more than 0.1% of the Group's total income or Expenditure.

Scoping the group audit

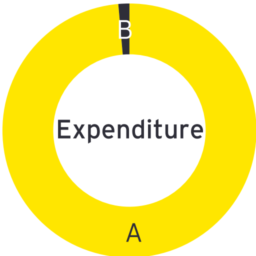
Coverage of Revenue/Profit before tax/Total assets

Based on the group's draft financial statements our scoping is expected to achieve the following coverage of the Gross Revenue Expenditure, group's revenue and total assets.



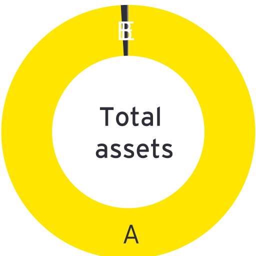
100%

of the group's revenue will be covered by full and specific scope audits.



100%

of the group's gross revenue expenditure will be covered by full and specific scope audits.



99.9%

of the group's forecast total assets will be covered by full and specific scope audits, with the remainder covered by other procedures.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Details of specific scope and other procedures

- For Tower Hamlets Homes, the primary audit team will perform direct procedures to gain assurance over the expenditure and cash balances
- For Kings George's Field, Mile End, the primary audit team will perform direct procedures on the entity's PPE Valuations. The trust has engaged an external valuation expert as part of the same contract held by the Council. We will perform procedures to assess the work performed by the valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work, alongside the work performed as part of the audit of the Council. We will test a selection of key items from within the PPE balance.
- For all other non-significant components and associates we will perform "other procedures" which will include a review of financial statements and performance and analytical procedures.

06 Audit team

Audit team

Stephen Reid
Audit Partner*

Hayley Clark
Partner

Dan Spiller
Senior Manager

Heather Rothwell-Trickett
Lead Senior

Emily Agutu
Senior

Specialist 1
(EY Real Estates)

Specialist 2
(Specialist PWC consulting actuary and EY Actuaries)

Specialist 3
(EY PFI Specialists)

Specialist 4
(EY MRP Specialists)

Forensic & Integrity Services

Jonathan Middup
Partner

Stephen Greenway
Director

Derin Farao
Assistant Manager

* Key Audit Partner

Use of specialists

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

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

Area	EY Specialists
Valuation of Land and Buildings	EY Real Estate Valuations team / Management's externally engaged valuation experts
Pensions disclosure	EY Actuaries / LGPS Scheme actuaries
PFI	EY Internal PFI Specialist
MRP	EY Internal MRP Specialist

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 Group's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

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

Use of Forensics in the audit

We have engaged forensics colleagues in the audit team from the planning stage in order to assist with our fraud risk identification which is appropriate for an audit with the risk rating that we have assigned. They will work alongside our audit team to perform assigned procedures enhancing our response to the risks identified on the audit with specific responsibilities in relation to related party identification and journals testing.

Our forensics colleagues have also been engaged to perform procedures in relation to two events that we are responding to under our responsibilities for suspected Non-Compliance with Laws and Regulations (NOCLAR). Appendix G to this report outlines our, and also management's responsibilities, where suspected Non-Compliance arises.

The two matters that we are performing additional procedures on are:

- "Project Winter"
- Allegations of corruption made in relation to licencing for a sexual entertainment venue in the borough.

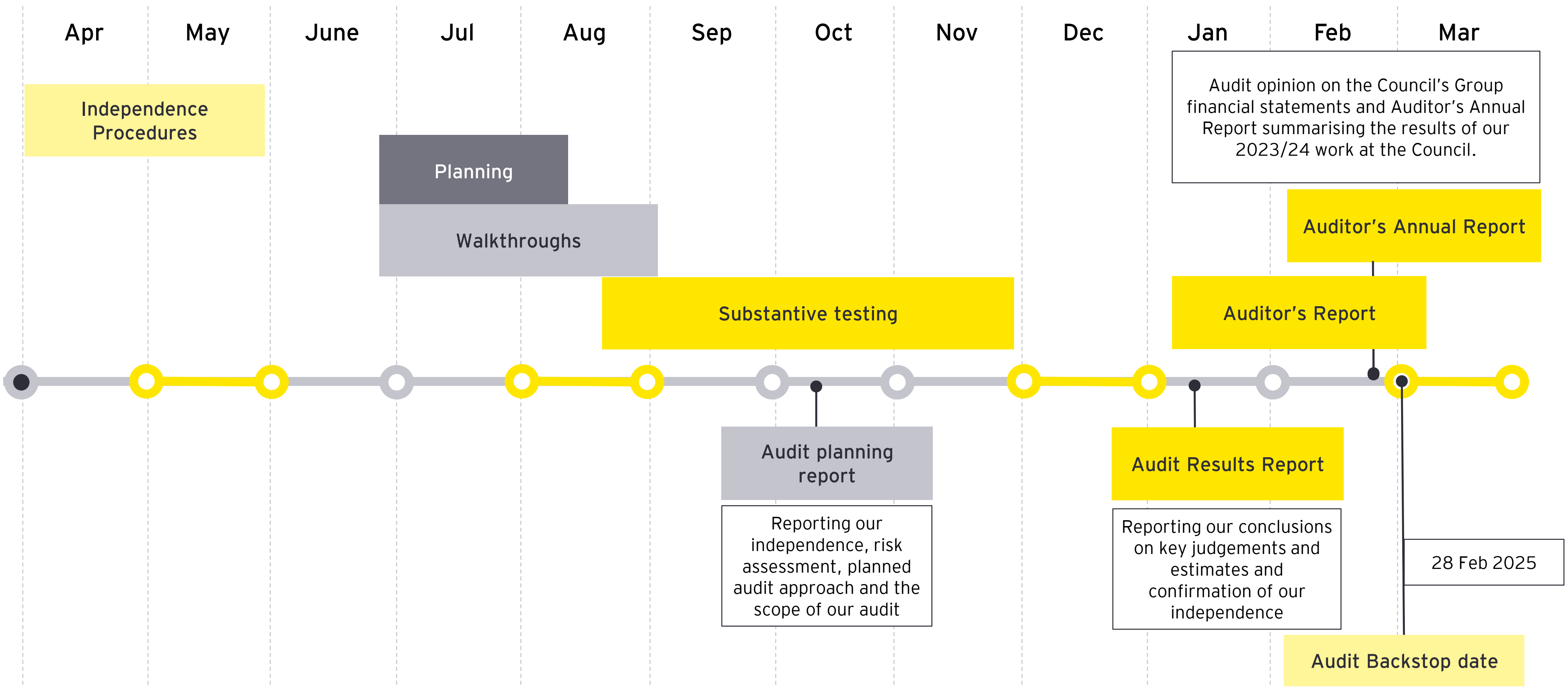
07 Audit timeline

Timetable of communication and deliverables

Planned Timeline

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

From time-to-time matters may arise that require immediate communication with the 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. As set out in the executive summary there are risks to the delivery of this timetable, which is more acute given the setting of the backstop date in February 2025. We will continue to update management on the implications of the delays on the form of our opinion.



08 Independence

Introduction

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

Required communications

Planning stage	Final stage
➢ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ➢ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ➢ The overall assessment of threats and safeguards; ➢ Information about the general policies and process within EY to maintain objectivity and independence ➢ The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a “pre-approval” to provide the service). ➢ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.	➢ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ➢ Details of non-audit/additional services provided and the fees charged in relation thereto; ➢ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ➢ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ➢ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ➢ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ➢ An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self-interest threats

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

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 self-interest threats at the date of this report.

Self-review threats

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

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

Management threats

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

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

Other threats

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

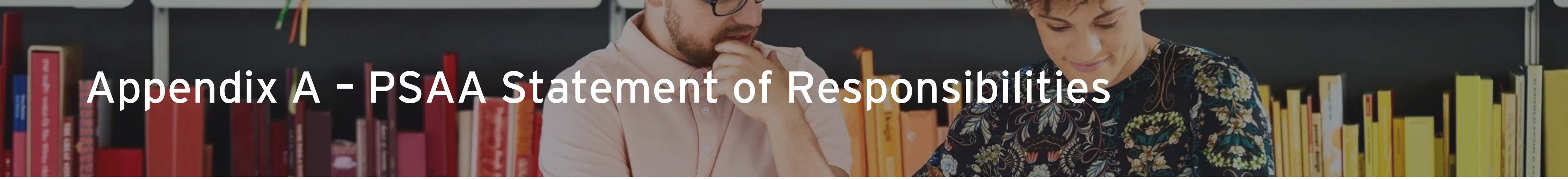
There are no threats at the date of this report.

EY Transparency Report 2023

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2023 and can be found here: EY UK 2023 Transparency Report.

09 Appendices



Appendix A – PSAA Statement of Responsibilities

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

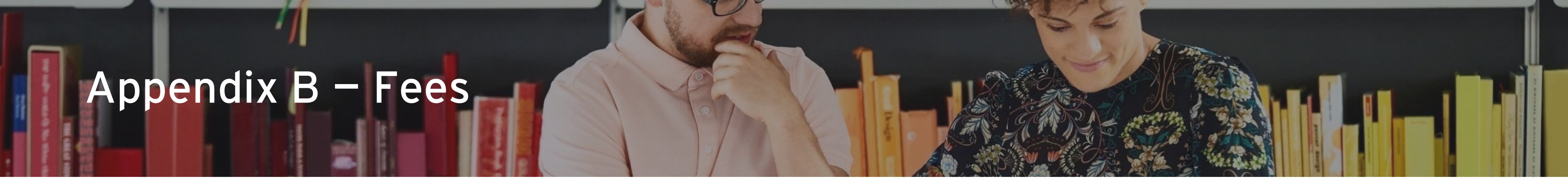
Preparation of the statement of accounts

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

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

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

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



Appendix B – Fees

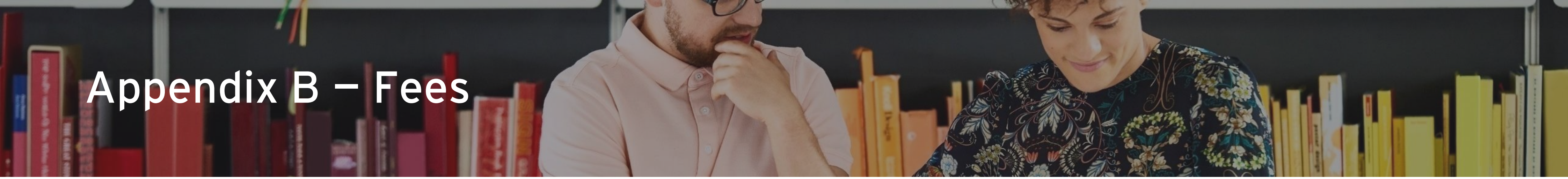
The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

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

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

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



Appendix B – Fees

		2023/24
All fees exclude VAT	£	£
Code Work – Scale fee		505,893
Estimated variations to the Scale Fee (Note 1)		
ISA 315 – additional IT environment work (2)	15,500 – 20,500	
Close Monitoring designation (3)	25,000 - 45,000	
Impact of CM designation on materiality (3)	120,000 – 150,000	
Use of forensics in the Audit	36,000 - 50,000	
Consideration of IFRS 16 Implementation	2,000 – 3,000	
Club Oops and Project Winter NOCLAR considerations	4,000 – 8,000	
Pensions assurance (triennial and asset ceiling)	12,500 – 20,000	
Additional work to review actions taken on LGPS membership data (noted in PY)	12,500 – 17,500	
PFI (incl Use of Experts)	12,000 – 16,000	
MRP (incl Use of Experts)	7,500 – 10,000	
PPE Valuations (incl Use of EY Real Estates))	45,000 – 75,000	
Increased number of Exit Packages	2,000 – 5,000	
Increased work in relation to Related Parties	7,000 – 10,000	
Group assessment, consolidation and direct testing of subsidiary balances for group assurances	10,000 – 15,000	
Increased risks identified in relation to VfM	50,000 – 65,000	
Increased risk assessment (fraud risks)	25,000 - 35,000	
Quality of workpapers and responses (4)	TBC	
Total audit fees		**891,893 - 1,050,893 (excluding additional TBC items)**

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

- Consideration of correspondence from the public and formal objections.
- Non-compliance with law and regulation with an impact on the financial statements.
- VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- The need to exercise auditor statutory powers.
- Prior period adjustments.
- Modified financial statement opinions

(1) The areas listed in this table are yet to be calculated and fall within an expected range, for this table we have entered the mid-point of this range. We will update officers with more accurate estimates when we can and update this committee within our Audit Results Report.

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

(3) The Scale Fee has not been set recognising the level of risk attached to the Council. Due to the risk designation of "close monitoring" our planning materiality and performance materiality have been set at the lowest levels within our ranges. These thresholds drive our sample selection meaning that due to the risk level of the Council, our samples will be significantly higher than with a lower risk designation. We also have additional risk procedures that we perform as set out on page 7. Towards the end of our fieldwork, we will analyse the difference between the number of items we would have tested with a lower risk designation and present this evidence to management and PSAA Ltd to discuss where we believe the Scale Fee should have been set. Due to there being a large number of inputs that will be required to more accurately estimate this figure our range is wider.

(4) As set out earlier in this report, we are experiencing delays and issues in relation to the quality of workpapers (and responses) resulting in additional time and cost. We are monitoring this position closely and will discuss with management the extent of this and impact on fee.

Appendix C — Accounting and regulatory update

Future accounting developments

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

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

Appendix C — Accounting and regulatory update (optional)

Regulatory update

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

Name	Summary of key measures	Impact on 2023/24
ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement	ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas: ➢ Risk Assessment ➢ Understanding the entity's internal control ➢ Significant risk ➢ Approach to addressing significant risk (in combination with ISA 330) The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to: ➢ Drive consistent and effective identification and assessment of risks of material misstatement ➢ Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability') ➢ Modernise ISA 315 to meet evolving business needs, including: ‣ how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and ‣ how auditors understand the entity's use of information technology relevant to financial reporting. ➢ Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.	We will need to obtain an understanding of the IT processes related to the IT applications of the Council/Authority. We will perform procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy. When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures. We also review the following processes for all relevant IT applications: ➢ Manage vendor supplied changes ➢ Manage security settings ➢ Manage user access ➢ Manage entity-programmed changes ➢ Job scheduling and managing IT process

Appendix D — The Spring Report

A combined perspective on enhancing audit quality

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

Appendix E — Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of: ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report 10 October 2024
Significant findings from the audit	➢ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ➢ Significant difficulties, if any, encountered during the audit ➢ Significant matters, if any, arising from the audit that were discussed with management ➢ Written representations that we are seeking ➢ Expected modifications to the audit report ➢ Other matters if any, significant to the oversight of the financial reporting process ➢ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	Audit results report 9 January 2025
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ➢ Whether the events or conditions constitute a material uncertainty ➢ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ➢ The adequacy of related disclosures in the financial statements	Audit results report 9 January 2025

Appendix E — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
Misstatements	➢ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ➢ The effect of uncorrected misstatements related to prior periods ➢ A request that any uncorrected misstatement be corrected ➢ Material misstatements corrected by management	Audit results report 9 January 2025
Fraud	➢ 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: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ➢ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ➢ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ➢ Any other matters related to fraud, relevant to Audit Committee responsibility	Audit results report 9 January 2025
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ➢ Non-disclosure by management ➢ Inappropriate authorisation and approval of transactions ➢ Disagreement over disclosures ➢ Non-compliance with laws and regulations ➢ Difficulty in identifying the party that ultimately controls the entity	Audit results report 9 January 2025

Appendix E — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence ➢ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ➢ The principal threats ➢ Safeguards adopted and their effectiveness ➢ An overall assessment of threats and safeguards ➢ Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report 10 October 2024 Audit results report 9 January 2025
External confirmations	➢ Management's refusal for us to request confirmations ➢ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report 9 January 2025
Consideration of laws and regulations	➢ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ➢ Enquiry of the 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 9 January 2025
Internal controls	➢ Significant deficiencies in internal controls identified during the audit	Audit results report 9 January 2025
Group audits	➢ 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 ➢ 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	Audit planning report 10 October 2024 Audit results report 9 January 2025

Appendix E — Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report 9 January 2025
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report 9 January 2025
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report 9 January 2025
Auditors report	➢ Key audit matters that we will include in our auditor's report ➢ Any circumstances identified that affect the form and content of our auditor's report	Audit results report 9 January 2025

Appendix F — Additional audit information

Regulatory update

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

Our responsibilities in relation to the financial statement audit are set out in the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Appendix F — Additional audit information (cont'd)

Other required procedures during the course of the audit

Procedures required by the Audit Code	➢ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. ➢ Examining and reporting on the consistency of consolidation schedules or returns with the Group's audited financial statements for the relevant reporting period

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

Purpose and evaluation of materiality

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

Materiality determines:

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

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

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

Non-Compliance with Laws and Regulations includes:

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

Management Responsibilities:

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

ISA 250A, para 3

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

ISA 250A, para 3

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

Audit Engagement Letter

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

Auditor Responsibilities

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

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

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

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

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

Further information to evaluate the possible effect on the financial statements

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

ISA 250A, paras 19 and 22

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

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

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

What are the implications of NOCLAR matters arising?

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

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

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

Management response:

- Timely communication of the matter to auditors (within a couple of days)
- Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both
- Scope the investigation, in discussion with the auditors
- Evaluate findings and agree next steps
- Determine effect on financial statements including disclosures
- Prepare a paper, summarising the outcome of the investigation and management's conclusions
- Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

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

Audit response:

- Initial assessment of the NOCLAR matter and its potential impact
- Initial consultation with risk team to determine responsive procedures and the involvement of specialists
- Understand and agree scope of management's investigation with support from specialists as needed
- Evaluate findings and undertake appropriate audit procedures
- Determine audit related impact including accounting and disclosure and audit opinion implications
- Document and consult on the outcome of our procedures
- Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

EY | Building a better working world

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

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

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

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

ED None

ey.com