

# Rushmoor Borough Council

Audit planning report

Year ending 31 Month 2025

April 2025



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Corporate Governance, Audit and Standards Committee  
Rushmoor Borough Council  
Council Office, Farnborough Road  
Farnborough, Hants  
GU14 7 JU

11 April 2025

Dear Corporate Governance, Audit and Standards Committee Members

### **Audit planning report**

Attached is the audit planning report for the upcoming meeting of the Corporate Governance, Audit and Standards Committee (“CGAS Committee”). This report aims to provide the CGAS Committee of Rushmoor Borough Council (the Council) with a basis to review the proposed audit approach and scope for the 2024/25 audit. This is in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office’s 2024 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 evaluation of the key issues driving the development of an effective audit. We have aligned our audit approach and scope accordingly. The report also addresses the broader impact of Government proposals aimed at establishing a sustainable local audit system.

As the Council’s body charged with governance, the CGAS Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Council’s wider arrangements to support a timely and efficient audit. Failure to achieve this will affect the level of resources required to fulfil our responsibilities. We will assess and report on the adequacy of the Council’s external financial reporting arrangements, as well as the effectiveness of the CGAS Committee in fulfilling its role within those arrangements as part of our Value for Money assessment. We will also consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements if deemed necessary. We direct CGAS Committee members and officers to the Public Sector Audit Appointment Limited’s Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

This report is intended solely for the information and use of the CGAS 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 22 May 2025 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

**Simon Mathers**

For and on behalf of Ernst & Young LLP

# Contents

- 1 Overview of our 2024/25 audit strategy
- 2 Audit risks
- 3 Value for Money risks
- 4 Audit Materiality
- 5 Scope of our audit
- 6 Audit team
- 7 Audit timeline
- 8 Independence
- 9 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/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.psa.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 2024 (the NAO 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 Rushmoor Borough Council**. Our work has been undertaken so that we might state to the **Audit Committee and management of Rushmoor Borough Council** those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Audit Committee and management of Rushmoor Borough Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 2024/25 audit strategy overview

# 2024/25 audit strategy overview

## Context

Timely, high-quality financial reporting and audit of local bodies play a crucial role in our democratic system. It aids in effective decision-making by local bodies and ensures transparency and accountability to local taxpayers. There is a consensus that the delay in publishing audited financial statements by local bodies has reached an unacceptable level, and it is acknowledged that cooperation among all stakeholders in the sector is necessary to address this issue. The reasons for the backlog are well-documented and include:

- Insufficient capacity within the local authority financial accounting profession.
- Increased complexity of reporting requirements within the sector.
- Insufficient capacity within audit firms with public sector experience.
- Heightened regulatory pressure on auditors, leading to an expanded scope and extent of audit procedures performed.

The Ministry for Housing, Communities and Local Government (MHCLG) has collaborated with the Financial Reporting Council (FRC) and other system partners to develop and implement measures to address the backlog. SI 2024/907, along with the NAO Code and the Local Authority Reset and Recovery Implementation Guidance, have been created to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). In February 2025, responsibilities for leadership of the local audit system transferred from the FRC back to MHCLG. This change follows the December 2024 launch of the Government's strategy for reforming the local audit system in England, which includes plans to establish a Local Audit Office. The approach to addressing the backlog consists of three phases:

- **Phase 1: Reset;** clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024. This is largely complete.
- **Phase 2: Recovery from Phase 1;** from 2023/24, use backstop dates to prevent a recurrence of the backlog and allow assurance to be rebuilt over multiple audit cycles. The backstop date for the audit of the 2024/25 financial statements is 27 February 2026. Auditors are waiting for guidance from the system leader to effectively, efficiently and consistently build back assurance over disclaimed audit periods.
- **Phase 3: Reform;** involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As detailed in our Audit Results Report presented to the Corporate Governance, Audit and Standards Committee on 29 January 2025, we disclaimed our audit opinion on the Council's 2023/24 financial statements on 26 February 2025.

We have obtained assurance over some of the closing balances in 2023/24. However, we do not have assurance over all brought-forward balances in 2024/25. Consequently, we lack assurance over all in-year movements and some closing balances for 2024/25. Although we will continue to work towards rebuilding assurance ahead of the 2024/25 backstop date (subject to guidance), we will not be able to obtain sufficient evidence to have reasonable assurance over all closing balances. We therefore expect to again issue a disclaimer of opinion in 2024/25.

# 2024/25 audit strategy overview (cont'd)

## Rebuild of assurance – current position

The National Audit Office issued Local Audit Reset and Recovery Implementation Guidance (LARRIG) 05 on 10 September 2024, detailing the principle of returning to a state where auditors can issue audit opinions on local authority financial statements with sufficient audit evidence. This process will take several years to achieve.

Restoring assurance will need local authorities and auditors to work together. We are waiting for guidance from the National Audit Office and Financial Reporting Council to ensure a consistent approach for restoring assurance for disclaimed periods. Until then, we are unable to commence the rebuilding work programme.

We will audit the 2024/25 closing balance sheet and in-year transactions, similar to our approach for 2023/24, as well as performing additional risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position for 2024/25. Updates on rebuilding assurance for the historical position will be provided as guidance is issued and its implications for the Council are evaluated taking into consideration the outcome of our risk assessment procedures. As the Council's financial statements for 2020/21, 2021/22, 2022/23, 2023/24 were subject to a disclaimer of opinion, it is highly probable that our risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position will conclude that an elevated risk of material misstatement is associated with the reserve balances, because of the way in which they accumulate over successive years

## Responsibilities of management and those charged with governance

The Council's Section 151 Officer is responsible for preparing the financial statements in accordance with proper practices and confirming they give a true and fair view at the 31 March 2025. To complete the audit in a timely and efficient manner, it is essential that the financial statements are supported by high-quality working papers and audit evidence, and that Council resources are available to support the audit process within agreed deadlines. The Audit Committee has an essential role in ensuring that it has assurance over both the quality of the financial statements and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this conditions are not met, 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 deemed necessary.
- Assess the impact on available audit resource and where additional resources are deployed, seek a fee variation from PSAA. We have set out the factors that will lead to a fee variation at Appendix B, 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.

# 2024/25 audit strategy overview (cont'd)

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

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Presumptive risk of management override of control	Fraud risk	No change in risk or focus	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 revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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 the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation on investment property	Significant risk	No changes in risk or focus	The Council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates - adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.
Valuation of land and buildings valued under the depreciated replacement cost (DRC) method and the existing use value (EUV) method	Significant risk	No change in risk or focus	The DRC and EUV valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, which trigger the use of experts by both management and EY. The estimates heighten the risk of material errors.

# 2024/25 audit strategy overview (cont'd)

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

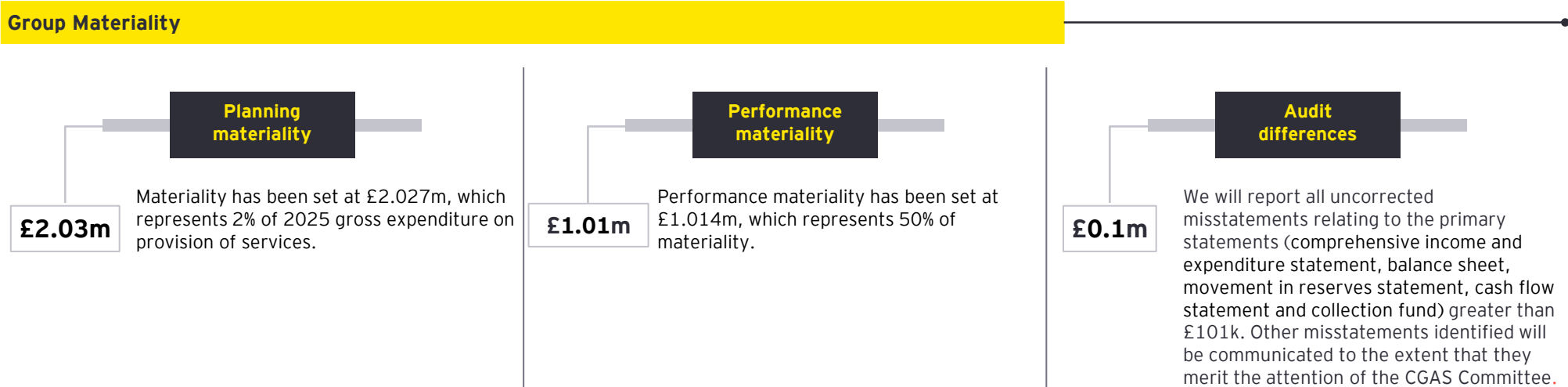
## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
IFRS 16	Significant risk	Increase in risk	Mandatory implementation of IFRS 16 Leases has been deferred until the current financial year. IFRS 16 leases is a complex standard that will require a substantial amount of data gathering followed by statements, policy choice decisions. The Council was not able to disclose the impact of the implementation in the prior year accounts. We were also unable to confirm the impact of IFRS 16 whilst performing our planning procedure and therefore cannot confirm management readiness and the potential impact.
Pension Liability Valuation and the IAS 19 valuations	Risk of material misstatement	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to disclose its membership in the Local Government Pension Scheme in its financial statements.  Due to the significant estimation and judgement involved, an actuary is engaged for calculations. ISAs (UK) 500 and 540 mandate procedures on using management experts and assumptions for fair value estimates.

We will continue to keep the Audit Committee updated on our assessment of any changes to audit risk.



# 2024/25 audit strategy overview (cont'd)



We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

# 2024/25 audit strategy overview (cont'd)

## 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 give a true and fair view of the financial position as at 31 March 2025 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 the value for money arrangements in Section 3.

We 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 required mandatory procedures in accordance with applicable laws and auditing standards.

When planning the audit we consider 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 the above.

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

Considering the above, our professional duties require us to independently assess audit risks and take appropriate actions. The Terms of Appointment with the PSAA permit fee adjustments based on 'the auditor's assessment of risk and the work needed to meet their professional responsibilities'. Therefore, we outline these risks in this audit planning report and will discuss any impact on the proposed scale fee with management.

# 2024/25 audit strategy overview (cont'd)

## Audit scope (cont'd)

### Effects of climate-related matters on financial statements

Public interest in climate change is growing. We recognize that climate-related risks may span a long timeframe, and while these risks exist, their impact on the current financial statements may not be immediately significant. However, it remains essential to understand these risks to conduct a proper evaluation. Additionally, comprehending climate-related risks may be pertinent in the context of qualitative disclosures in the notes to the financial statements and in assessing value-for-money arrangements.

We inquire about climate-related risks during every audit as part of our understanding of the entity and its environment. As we continually re-evaluate our risk assessments throughout the audit, we consider the information obtained to help us assess the level of inherent risk.

### Audit scope and approach

We plan to adopt a substantive audit approach.

# 2024/25 audit strategy overview (cont'd)

## 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.

The value for money planning and related risk assessment aims to collect enough evidence to document our evaluation of the Council's arrangements, allowing us to prepare a commentary based on three reporting criteria. This process includes identifying and reporting any significant weaknesses in those arrangements and making suitable 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.
- 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.

Commentary on value for money arrangements will be included in the 2024/25 Auditor's Annual Report. This will need to be issued by 30 November 2025 to comply with the revised requirements of the NAO Code.

## Timeline

An audit timetable has been agreed with management. In Section 7 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

# 2024/25 audit strategy overview

## Group Audit scope

The scoping of the group audit addresses the risks of material misstatement in the Council's financial statements, including those noted under 'Audit risks' and 'Other areas of audit focus'. For the year-end audit, aligned with ISA (UK) 600 (Revised), effective for periods starting on or after 15 December 2023, we have tailored our audit scope to respond to these identified risks.

We have determined that the audit procedures can be performed centrally. Significant procedures planned to be performed centrally and the responsibility for their performance are:

Significant Account	Details and what we will do
Cash and cash equivalent	Confirm year end balances directly with the bank
Investment Property	We will perform the same procedures set out in slide 7 to address the risk of investment property valuation and other detailed substantive procedures
Rental income	We will perform detailed substantive procedures
Long- term creditors	We will perform detailed substantive procedures


- In determining the scope of our audit, we consider, on an iterative basis the residual amount of balances and accounts of the group financial statements which are not included with the group scope. We performed risk assessment procedures to determine whether there is a risk of material misstatement within those amounts and our planned group audit scope is inclusive of our audit response to such residual risks of material misstatement, when applicable. We update and perform further risk assessment procedures as necessary to conclude our assessment.
- We plan to take a 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.



**Presumptive risk  
of management  
override of  
controls\***

## 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:

- Identify fraud risks during the planning stages.
- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Discuss with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Consider whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Determine an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Undertake procedures to identify significant unusual transactions.
- Consider whether management bias was present in the key accounting estimates and judgments in the financial statements.

Having evaluated this risk, we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

# Our response to significant risks (cont'd)

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.



## 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)/Investment Property (IP) 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 the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

## What will we do?

- Test Property, Plant and Equipment (PPE)/Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- 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 capitalize, i.e., the costs incurred are directly attributable to bringing the asset into operational use.
- Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year.
- 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 (cont'd)

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.



## Financial statement impact

We have assessed that the risk of incorrect valuation of DRC and EUV assets results from the complex estimation involved in arriving at valuations, such that the involvement of specialists is required.

Errors, including incorrect assumptions, in relation to valuation would affect the year end carrying value of DRC and EUV assets.

## What is the risk?

We have disaggregated land and building assets to identify those where we think the significant risk lies. We have associated the risk to those assets that are valued using the DRC and EUV valuation methods.

These valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, which trigger the use of experts by both management and EY.

These estimates heighten the risk of material error.

## What will we do?

- ▶ Understand the Council's approach to DRC and EUV assets;
- ▶ Determine the impact of revaluations on the financial statements;
- ▶ Consider the use of management's specialists - the external valuers - including the scope of work and the professional competencies of the specialist;
- ▶ Challenge the assumptions made by management and their specialists, with input from EY real estates (EY specialists);
- ▶ Sample test key asset information used by management's specialists. We will consider if there are any specific changes to assets and whether they have been appropriately communicated;
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5-year rolling programme as required by the Code;
- ▶ Review assets not subject to valuation in 2024/25 to assess that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation;
- ▶ Test that accounting entries have been correctly processed in the financial statements.

# Our response to significant risks (cont'd)

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.



## Financial statement impact

We have assessed that the risk of incorrect valuation of fair value assets results from the complex estimation involved in arriving at valuations, such that the involvement of specialists is required.

Errors, including incorrect assumptions, in relation to valuation would affect the year end carrying value of fair value assets.

## What is the risk?

The council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates - adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.

These valuation methods involve higher risk estimates due to the significant assumptions and judgements involved, which trigger the use of experts by both management and EY.

These estimates heighten the risk of material error.

## What will we do?

- ▶ Understand the Council's approach to the Investment Property;
- ▶ Determine the impact of revaluations on the financial statements;
- ▶ Consider the use of management's specialists - the external valuers - including the scope of work and the professional competencies of the specialist;
- ▶ Challenge the assumptions made by management and their specialists, with input from EY real estates (EY specialists);
- ▶ Sample test key asset information used by management's specialists. We will consider if there are any specific changes to assets and whether they have been appropriately communicated;
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5-year rolling programme as required by the Code;
- ▶ Review assets not subject to valuation in 2024/25 to assess that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation;
- ▶ Test that accounting entries have been correctly processed in the financial statements.

# Our response to significant risks (cont'd)

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.



## Financial statement impact

- Assets being used by the council 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.
- Other amendments have been made to the CIPFA Code to expand the definition of donated assets to include right-of-use assets and on accounting for leases provided at below market rate, including peppercorn and nil consideration.

## What is the risk?

- IFRS 16 Leases is applicable in local government for periods beginning 1 April 2024. It has been adopted, interpreted and adapted in the 2024/24 CIPFA Code of Practice on Local Authority Accounting which sets out the financial reporting framework for the Council's 2024/25 accounts.
- IFRS 16 eliminates the operating/finance lease distinction for leases and imposes a single model geared towards the recognition of all but low-value or short-term leases. Where the Council is lessee these will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.
- Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Council will also have had to develop systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g., RPI-based) lease terms where forecasts will need to be updated annually based on prevailing indices.
- Based on our prior year work the Council had made little progress in collecting the information necessary to implement IFRS 16 and determine the impact on its financial statements.

## What will we do?

- Gain an understanding of the processes and controls developed by the Council relevant to the implementation of IFRS 16. We will pay particular attention to the Council's arrangements to ensure lease and lease-type arrangements considered are complete.
- Review the discount rate that is used to calculate the right of use asset and assess its reasonableness.
- Review management policies, including whether to use a portfolio approach, low value threshold, and asset classes where management is adopting as the practical expedient to non-lease components.
- Gain assurance over the right of use asset included in the 2024/25 financial statements
- Sample test leases to ensure that transition arrangements have been correctly applied.
- Consider the accounting for leases provided at below market rate, including peppercorn and nil consideration, and the need to make adjustments to cost in the valuation of right of use assets at the balance sheet date.

# 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 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 £7,431m.

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.

## Our response: Key areas of challenge and professional judgement

We will:

- Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council
- 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; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

## What else will we do?

We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. 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.



# 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.

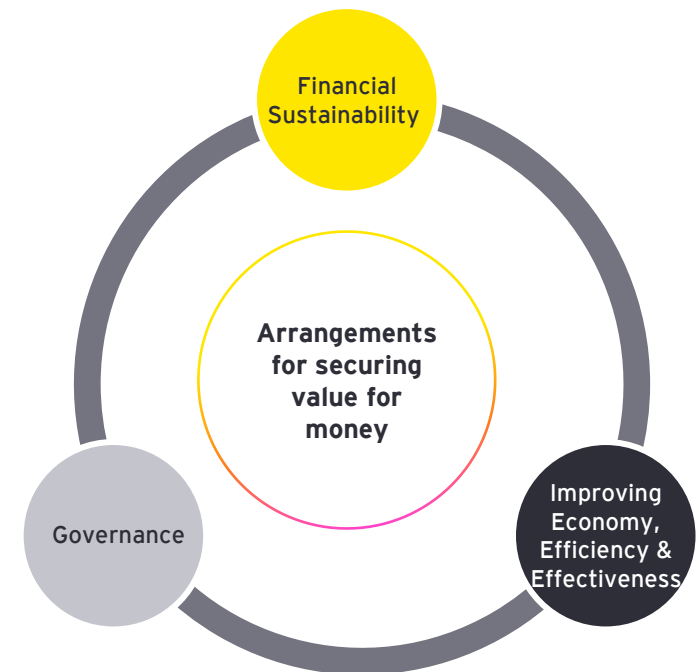
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its 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 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 (cont'd)

## Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes require us to conduct a risk assessment that collects sufficient evidence to document our evaluation of the Council's arrangements, allowing us to draft a commentary under the three reporting criteria. This involves identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. In considering the Council's arrangements, we consider:

- The governance statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the financial statements;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem as necessary to facilitate the performance of our statutory duties.

We then evaluate whether there is evidence indicating significant weaknesses in arrangements. According to the NAO's guidance, determining what constitutes a significant weakness and the extent of additional audit work required to address the risk is based on professional judgment. The NAO indicates that a weakness can be considered 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 or unlawful actions;
- 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.

## Responding to identified risks of significant weakness

When planning work identifies a risk of significant weakness, the NAO's guidance requires us to consider the additional evidence needed to verify whether there is a significant weakness in arrangements. This involves conducting further procedures as necessary. We are required to report our planned procedures to the Audit Committee.

# Value for Money (cont'd)

## Reporting on VFM

If we determine that the Council has not made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, the NAO Code mandates that we reference this by exception in the audit report on the financial statements.

Additionally, we are required to provide a commentary on the value for money arrangements in the Auditor's Annual Report. The NAO Code specifies that this commentary should be clear, readily understandable, and highlight any issues we wish to draw to the Council's or the wider public's attention. This may include matters that are not considered significant weaknesses in arrangements but should still be brought to the Council's awareness. It will also cover details of any recommendations from the audit and the follow-up of previously issued recommendations, along with our assessment of their satisfactory implementation. Our 2024/25 Auditor's Annual Report is required to be issued by 30 November 2025 to comply with the revised requirements of the NAO Code.

## Status of our 2024/25 VFM planning

We have completed our initial value for money planning, 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, key financial and budget information, key performance reports, internal audit reports, information from local, national and specialist media, and findings of other inspectorates, review agencies and other relevant bodies.

## Value for Money Risks

The table summarises the risk of significant weaknesses identified during our planning. We will review arrangements and risks regularly, updating our work if new risks arise and inform you of any additional significant weaknesses.

What is the risk of significant weakness?	What arrangements does this impact	Change from PY	Details and what we will do
<p>The high level of short-term borrowings without sufficient income to finance the repayments as well as increase in interest costs have resulted in a financial uncertainty.</p> <p>The revised 2024-25 budget projected a £5.4m deficit before savings and a cumulative £16.6m MTFS deficit to 2027-28 with £10.7m of available reserves to cover the deficit</p>	Financial sustainability	No change in risk or focus	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>➤ Review of the Council's progress against the Financial Resilience Review Action Plan agreed following a recent review of the Council's arrangements for financial sustainability by the Chartered Institute of Public Finance and Accountancy (CIPFA).</li> <li>➤ Review the future savings plans factored into the Financial Resilience Review against the budget outturn report to determine if those savings have materialised.</li> <li>➤ Review the Council's arrangements for cash flow forecasting to ensure that it is able to refinance short-term borrowing and remain liquid for the foreseeable future.</li> </ul>





# 04 Audit materiality

# Materiality

## Group materiality

For planning purposes, Group materiality for 2025 has been set at £2.027m. This represents 2% of the Group's 2025 gross expenditure on provision of services. It will be reassessed throughout the audit process. Include rationale for choosing this basis and percentage in line with what is anticipated in the auditor's report. Include the qualitative factors which were considered when setting the level of materiality. We have provided supplemental information about audit materiality in Appendix F.



We will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

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 £1.014m which represents 50% of group materiality. After consideration of a range of factors such, including the number of audit differences identified in our 2024/25 audit and we disclaimed more than one opinion prior to 23/24, therefore is more likely that the delays in the audits were due to a weaker control environment at the entity and more misstatements

**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 are important from a qualitative perspective.



# 05 Scope of our audit

# Audit process and strategy

## Objective and Scope of our Audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO 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.

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 (cont'd)

## 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 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, as in previous years, 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 a data driven approach 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.

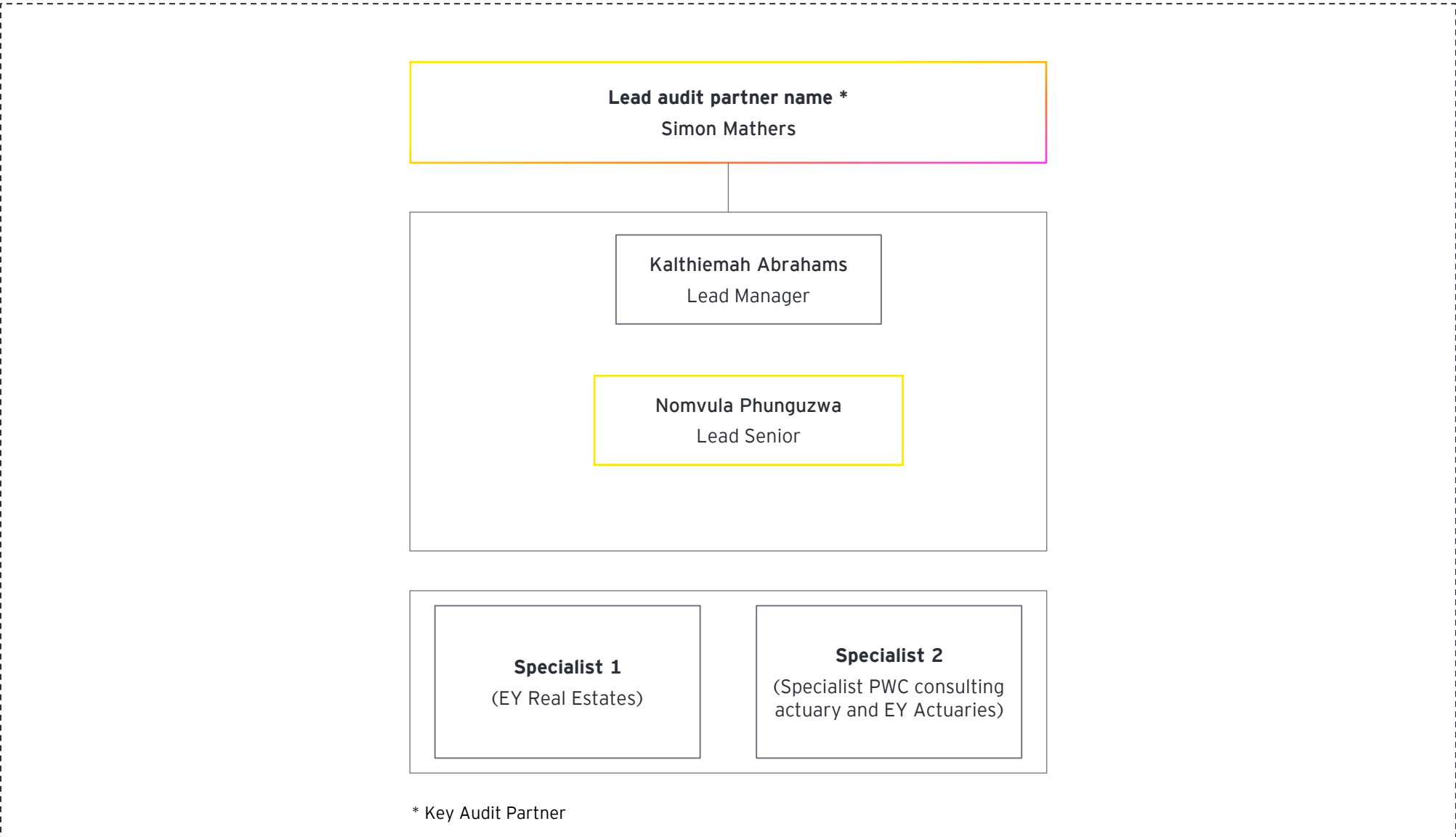
### **Internal audit**

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.



# 06 Audit team

# Audit team



\* 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	Specialists
Valuation of Land and Buildings	EY Valuations team
Pensions disclosure	EY Actuaries

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

We also consider the work performed by the specialist in light of our knowledge of the 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



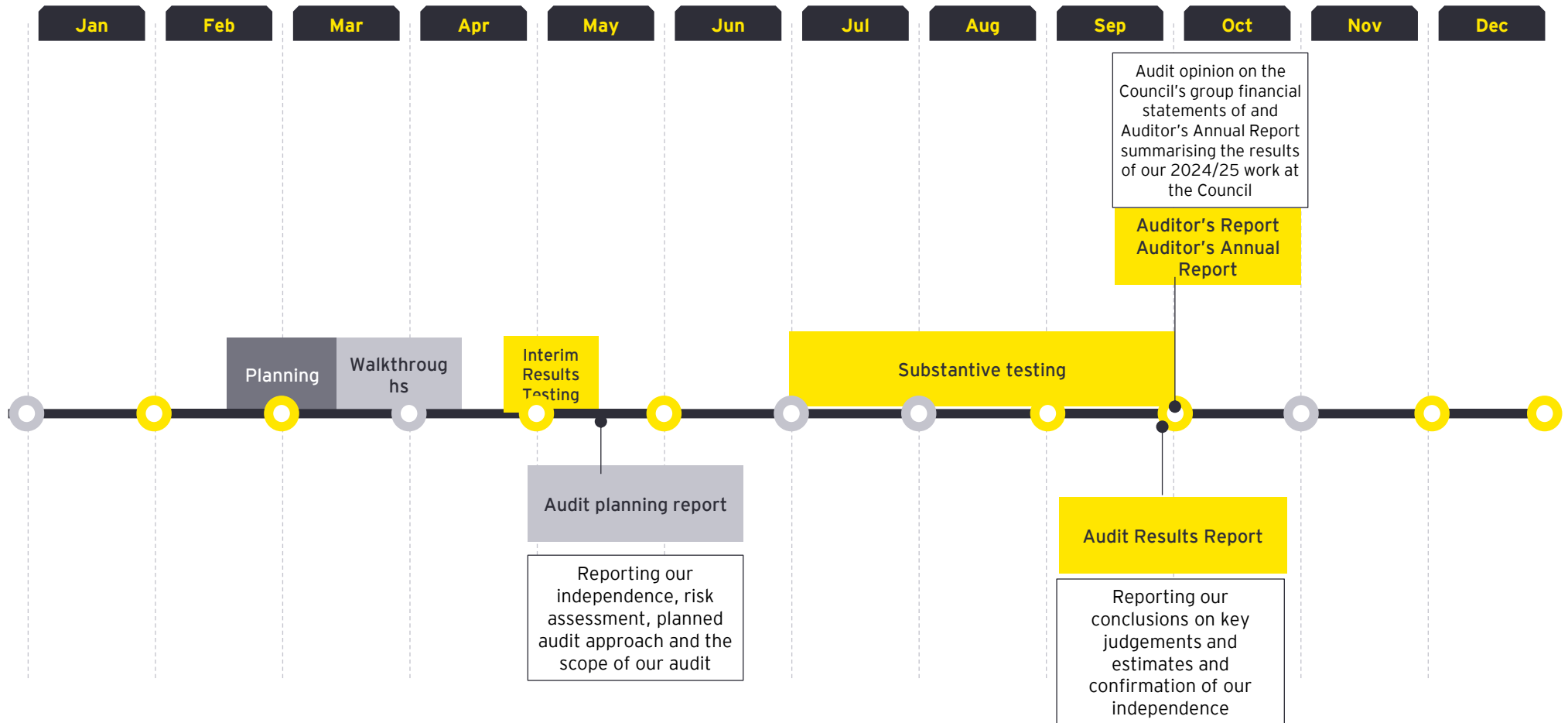


# 07 Audit timeline

# Timetable of communication and deliverables

## Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the 2024/25 audit cycle. From time-to-time matters may arise that require immediate communication with the CGAS Committee and we will discuss them with the CGAS Committee Chair as appropriate.





# 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

- 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.

### Final stage

- 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 Simon Mathers, your audit engagement partner and the audit engagement team have not been compromised.

## Self interest threats

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

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

## 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 other threats at the date of this report.

# Other communications

## EY Transparency Report 2024

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 2024 and can be found here: **[EY UK 2024 Transparency Report](#)**.



# 09 Appendices

# Appendix A – PSAA Statement of Responsibilities

As set out on the next page 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.psa.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

PSAA opted-in bodies: 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.

**Other Bodies** – A breakdown of our fees is shown in the table to the right.

The agreed fee presented is based on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ our financial statement opinion and value for money conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Council;
- ▶ an effective control environment; and
- ▶ compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.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.

	2024-25	2023-24	2022-23
	£	£	£
Total Fee – Code Work	159,935 Note 3	145,266	TBC Note 1
Scale Fee Variation	N/A	85,629 Note 2	N/A
Scale Fee Variation 2022/23 - Value for Money			15,502 Note 1
<b>Total audit</b>	<b>TBC</b>	<b>230,895</b>	<b>145,266</b>

## All fees exclude VAT

1. As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC (now MHCLG), PSAA has used its fee variation process to determine the final fee for 2022/23 VFM of £15,502 which has been accepted by the Council. The determination of the final fee for 2022/23 work outside of VFM remains outstanding with PSAA.
2. The 2023/24 work is now complete and we intend to submit a proposal to PSAA for a scale fee variation totalling £85,629. This final fee includes an adjustment for the following areas:
  - Additional procedures to implement the revised ISA 315 (UK) auditing standard as originally set out in our Audit Planning Report, totalling £16,902.
  - Additional procedures to consider the Council's readiness for the implementation of IFRS 16 as originally set out in our Audit Planning report, totalling £890.
  - Additional work performed due to weaknesses in quality of supporting evidence provided leading to significant follow-up, resampling and the need for additional procedures performed to quantify the impact of identified errors on the financial statements, totalling £30,438
  - Involvement of our EYRE valuation professionals in response to the assessed significant risk and additional work performed as a result of delays and weaknesses in the quality of evidence provided to support PPE and IP valuation, totalling £19,901
  - Additional procedures performed by the Pensions expert due to the error in the IAS pension valuation report and roll forward across, totalling £10,038
  - First year audit of Group accounts, totalling, £7,460
3. Scale fees for 2024/25 have been increased by PSAA to cover additional audit work under revised standards and a contractual inflationary increase payable to audit firms. The new work relates to revised auditing standard ISA (UK) 315 (risks of material misstatement) and linked work on ISA (UK) 240 (fraud).

# Appendix C – Scoping the group audit

## Overview of approach to group scoping

Where audit procedures are to be performed centrally and these are significant to the group strategy. We determined whether centralised procedures can be performed before we determined which components to include in the group audit scope, and the work to be performed at those components. We then identified the components that are individually relevant to the group for which audit procedures will need to be performed to respond to the assessed risks of material misstatement of the group financial statements.

We considered the following matters to determine which components were individually relevant:

- The significant risks (including fraud risks), and other areas of higher assessed risk associated with the component and the nature of the circumstances related to those risk(s) of material misstatement, including the relative size of the balance at the component.
- The financial size of the component relative to the group

We identified the accounts to be included in the work to be performed at these components based on the components' financial information.

We applied professional judgment in determining those accounts having considered:

- The reasons the component was identified as individually relevant and the accounts affected by risks associated with the component
- The extent of centralised procedures
- Whether the accounts are affected by other assessed risks of material misstatement of the group financial statements
- The relative size of the balance at the component.

We considered the balance of group accounts not yet subject to planned audit procedures and determined whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the group audit scope to address the risks of material misstatement of the group financial statements. The number of additional components and extent of procedures to be performed took into consideration:

- The extent of evidence already planned to be obtained from components which are individually relevant and the related in-scope accounts
- Whether centralised procedures can be performed on the residual account balances, including testing direct entity-level controls that operate throughout the group
- The results of risk assessment analytical procedures performed
- The results of the analysis on the residual significant account balances

Having identified the components for which work will be performed, we determined the scope to assign to each component.

- ▶ 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
  - ▶ The primary team will confirm the year-end bank balance through confirmation.com, audit the fair value of investment property and test the rental income earned by RHL during the year.

# Appendix D – 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	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▪ The planned scope and timing of the audit</li> <li>▪ Any limitations on the planned work to be undertaken</li> <li>▪ The planned use of internal audit</li> <li>▪ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report, as presented to the Corporate Governance, Audit and Standards Committee in May 2025
Significant findings from the audit	<ul style="list-style-type: none"> <li>▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▪ Significant difficulties, if any, encountered during the audit</li> <li>▪ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▪ Written representations that we are seeking</li> <li>▪ Expected modifications to the audit report</li> <li>▪ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▪ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Audit results report-tbc</li> </ul>

# Appendix D – Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▪ Whether the events or conditions constitute a material uncertainty</li> <li>▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▪ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report - tbc
Misstatements	<ul style="list-style-type: none"> <li>▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▪ The effect of uncorrected misstatements related to prior periods</li> <li>▪ A request that any uncorrected misstatement be corrected</li> <li>▪ Material misstatements corrected by management</li> </ul>	Audit results report - tbc
Fraud	<ul style="list-style-type: none"> <li>▪ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▪ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▪ 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</li> <li>▪ Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	Audit results report - tbc

# Appendix D – Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
<b>Related parties</b>	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▪ Non-disclosure by management</li> <li>▪ Inappropriate authorisation and approval of transactions</li> <li>▪ Disagreement over disclosures</li> <li>▪ Non-compliance with laws and regulations</li> <li>▪ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report - tbc
<b>Independence</b>	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> <li>▪ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <ul style="list-style-type: none"> <li>▪ The principal threats</li> <li>▪ Safeguards adopted and their effectiveness</li> <li>▪ An overall assessment of threats and safeguards</li> <li>▪ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> </li> </ul> <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> <li>▪ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▪ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▪ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▪ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	Audit planning report, as presented to the Corporate Governance, Audit and Standards Committee in May 2025

# Appendix D – Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▪ Management's refusal for us to request confirmations</li> <li>▪ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report - tbc
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ 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</li> </ul>	Audit results report - tbc
Internal controls	<ul style="list-style-type: none"> <li>▪ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - tbc
Group audits	<ul style="list-style-type: none"> <li>▪ An overview of the work to be performed at the components and the nature of the group audit team's planned involvement in the work to be performed by component teams</li> <li>▪ Instances when the group audit team's review of the work of a component team gave rise to a concern about the quality of that team's work, and how the group audit team addressed the concern</li> <li>▪ Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team's access to people or information may have been restricted</li> <li>▪ 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</li> <li>▪ Significant deficiencies identified in the group's system of internal control</li> </ul>	Audit results report - tbc

# Appendix D – Required communications with the Audit Committee

		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 - tbc
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report - tbc
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - tbc
Auditors report	<ul style="list-style-type: none"> <li>▪ Key audit matters that we will include in our auditor's report</li> <li>▪ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - tbc

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