

Stoke-on-Trent City Council Completion Report for Those Charged with Governance

Years ended 31 March 2021, 31
March 2022, 31 March 2023

Report issued - 15 November 2023



Audit and Standards Committee
Stoke-on-Trent City Council
Civic Centre, Glebe Street, Stoke-on-Trent
ST4 1HH

15 November 2024

Dear Audit and Standards Committee

Completion Report for Those Charged With Governance

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit and Standards Committee of Stoke on Trent City Council (the Council) with a detailed complete report covering our approach and outcomes of the 2020/21, 2021/22, 2022/23 audits.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinions on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinions and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2021, 31 March 2022 and 31 March 2023 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing disclaimed audit reports.

In completing our work for these audit years we have taken into account Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice (including recent 2024 updates), the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.



The Audit and Standards 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.

We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Audit and Standards 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 the Audit and Standards 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).

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

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Hassan'.

Hassan Rohimun

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website. 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 (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 and Standards Committee and management of Stoke-on-Trent City Council. Our work has been undertaken so that we might state to the Audit and Standards Committee and management of Stoke-on-Trent City 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 and Standards Committee and management of Stoke-on-Trent City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary



Executive Summary – System wide and local context

Context for the audit – Department for Levelling-up, Housing and Communities (DLUHC) 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 the 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 need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- Lack of capacity within the local authority financial accounting professions
- Increased complexity of reporting requirements within the sector
- Lack of capacity within audit firms with public sector experience
- Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed

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 and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor 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.

The National Audit Office (NAO) has amended the Code of Audit Practice to:

- ▶ Require auditors to issue audit opinions according to statutory backstop dates 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 anticipate issuing disclaimed audit opinions on the Council's 2020/21, 2021/22 and 2022/23 financial statements. The proposed disclaimer of the Council's 2020/21, 2021/22 and 2022/23 financial statements impacts the audit procedures that we have planned and undertaken to gain assurance on the 2020/21, 2021/22 and 2022/23 financial statements and the form of the audit report.



Executive Summary – Local context

Local Background and Context

The position at this Council has developed over recent years resulting in unaudited financial statements for 31 March 2021, 31 March 2022 and 31 March 2023.

The main reasons for the Council's financial statements not being prepared, audited and signed to date include:

- ▶ The 2019/20 audit was completed, with our audit opinion signed on 15 August 2024. The 2019/20 audit reporting was impacted by:
 - The receipt of information in April 2021 from a whistle-blower regarding the administration of funds held under a Court of Protection Order, the independent investigation of which was concluded January 2023;
 - The need to undertake additional procedures to review the updated disclosures made by the Council relating to the accounting for infrastructure assets in accordance with the CIPFA code adaption that was issued in November 2022 and the implementation of a statutory instrument (SI) on 25 December 2022.
 - The identification of a significant number of audit differences, including material errors, which required adjustments to the financial statements.
- ▶ Consequently, we were unable to schedule the 2020/21 audit in order to meet the reporting timeline of 30 September 2021. We commenced our audit for 2020/21 in the Spring of 2023. However, as a result of the delays to the 2019/20 audit together with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an audit report on the 2020/21, 2021/22 or 2022/23 financial statements before the 13 December 2024 backstop date. Therefore, we are disclaiming our opinions on the financial statements.
- ▶ The Council has been in a position to present draft statements of account for audit which have been within the regulatory timeframe. However, the notice of public rights of inspection for the year ending 31 March 2021 did not allow for the full 30 days and a revised notice ending 12 December 2024 was published by the Council.
- ▶ The post pandemic timelines resulted in audit teams trying to move delayed audits on to completion, whilst finance teams were trying to catch up, deal with current priorities and plan for the future. This used a significant amount of our finite audit resource, leading to a lack of capacity to complete the 2020/21, 2021/22 and 2022/23 audits.
- ▶ In addition, there were a number of new technical issues and challenges to address during this period, including, accounting for infrastructure assets, taking into account the updated pension fund valuations.

Executive Summary – Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 – Executive Summary – this section setting out the national and local context and the structure of our report.

Section 2 – Work Plan – We have completed the following planning tasks:

- ▶ Required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting.
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 3 – Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, which we report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 4 – Value for money reporting

- ▶ The value for money report covering the year to 31 March 2023.

Section 5 - Appendices



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02 Work Plan

Work Plan – Audit Scope

Audit scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinions on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2021; 31 March 2022, 31 March 2023 and of the income and expenditure for the years then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant periods. We include further details on VFM in Section 4.

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 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.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

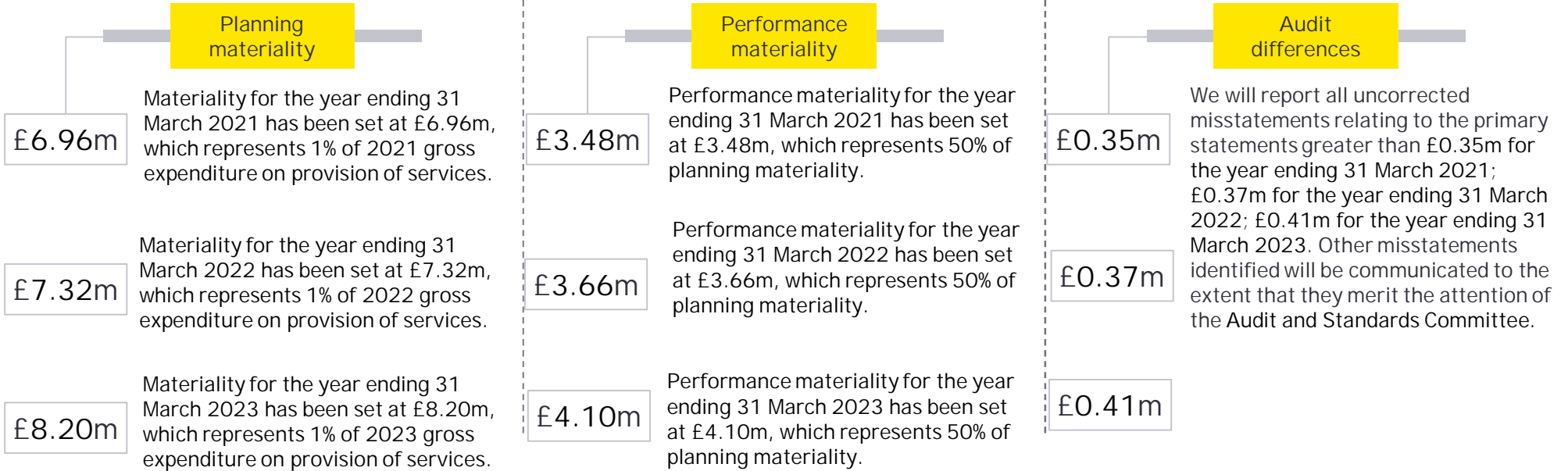
This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2021; 31 March 2022; 31 March 2023 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing disclaimed audit reports.

Work Plan - Materiality

Materiality



In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the published draft financial statements for 2020/21, 2021/22 and 2022/23. We determined that our audit procedures would be performed using a materiality set above - we have not considered group materiality. This level of materiality remains appropriate for the actual results for the financial year.

These levels are being used to assess our response to any issues identified in the Council's financial statements.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the years.

Audit risks and areas of focus

Risk/area of focus	Applicable years	Risk identified	Change from PY	Details
Pension Liability Valuation (LGPS)	All years covered by this report	Inherent risk	No change in risk or focus	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates.
Misstatement due to fraud or error	All years covered by this report	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.
Accounting for PFI Scheme	All years covered by this report	Inherent Risk	No change / increase in risk or focus	PFI Liability is a significant balance on the balance sheet and we have deemed it as a higher inherent risk as a change in the underlying assumptions of the PFI model could cause a material misstatement.
Valuation of PPE- Land and buildings	All years covered by this report	Significant risk	No change/ Increase in risk or focus	The Council has a large and complex asset base that makes up a significant proportion of its balance sheet. The valuation process incorporates significant judgements, which, if inappropriate, could result in a material misstatement. We consider the significant risk to be focused on those PPE assets that are valued at fair value due to the higher degree of estimation involved by the property valuers in calculating the valuation of the assets at the balance sheet date.
Valuation of investment properties	All years covered by this report	Significant risk	No change in risk or focus	Investment property assets are valued at fair value. As property valuations are subject to professional judgment and estimation, we consider there to be a higher inherent risk.
Risk of fraud in revenue and expenditure recognition related to grants.	All years covered by this report	Fraud Risk	No change in risk or focus	The Council is facing increasing financial constraints as a result of reduced funding, increased demand, and restrictions on the amount it can readily increase its revenue from Council Tax and Business Rates. Achieving a balanced budget is increasingly dependent on tight financial management and finding new income sources. Whilst there is no indication of member pressure to report a particular position there is still a risk of misstatement occurring.
Inappropriate capitalisation of expenditure	All years covered by this report	Fraud Risk	No change in risk or focus	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition. For the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.
Group Consolidation	All years covered by this report	Inherent risk	No change in risk or focus	The Council has two subsidiaries that requires consolidation. Fortior Homes (100%) and Unitas (100%). We consider it appropriate to include the risk as a higher inherent one risk due to the complexity of producing consolidated financial statements.

Work Plan - Independence

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 Governance & 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.

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.

Work Plan - Independence

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 Hassan Rohimun, 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. We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved. None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0:1 See table below for safeguards. 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.

Self review threats

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. The table below sets out the self-review threats that exist as the date of this report

Description of service	Independence threat	Period provided	Safeguards adopted and reasons considered to be effective
Teachers Pension Claim Certification	<ul style="list-style-type: none">Self-reviewSelf interest	2020/21	<ul style="list-style-type: none">Testing is undertaken in line with the agreed engagement it is distinct and separate to any work we have or will undertake on the Council's financial statements. The results of testing is not reflected in the amounts contained in the financial statements. The report provided is prepared solely for the purposes of the agreed procedures and will not be used or relied upon for any other purposes.The NAO's AGN01 excludes Teachers Pension certification work from the PSAA and ethical standards fee caps because this service is required by the awarding central government department. In addition, the fees for this work are relatively limited.

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.



03 Results and findings



Results and findings

Status of the audit

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

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of a signed management representation letters.

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft of which is included later in this section.

Value for Money

Our value for money (VFM) work is complete and reported in Section 4 of this report. We identified a risk of significant weakness in respect of financial sustainability and governance arrangements as part of our risk assessment procedures. Having updated and completed the planned procedures in these areas we did identify a significant weakness.

Audit differences

We have not identified any audit differences, either adjusted or unadjusted, as part of our audits. The Council should ensure that in approving the Statement of Accounts, all prior year comparatives agree to the final set of prior year Statement of Accounts, or explanations for prior year adjustments have been set out by the Section 151 Officer.

Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statements for consistency with our knowledge of the Council. We have no material matters to report as a result of this work.

The Comptroller and Auditor General has confirmed that he plans to issue his opinion and certificate on the 2022/23 Whole of Government Accounts on 22 November 2024. Given we expect to issue our 2020/21, 2021/22 and 2022/23 audit reports after that date but before the statutory backstop of 13 December 2024, we therefore expect to be able to certify completion of the audits as part of our final 2020/21, 2021/22 and 2022/23 audit reports.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.



Results and findings

Areas of audit focus

We identified a number of key areas of focus for our audit of the financial report of Stoke on Trent City Council. We concluded we would disclaim the audits and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

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

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

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

Control observations

During the audit, we did not identify any significant deficiencies in internal control.

Independence

Further to our review of independence in Section 2 of this report we have not identified any issues to bring to your attention.

Other matters

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

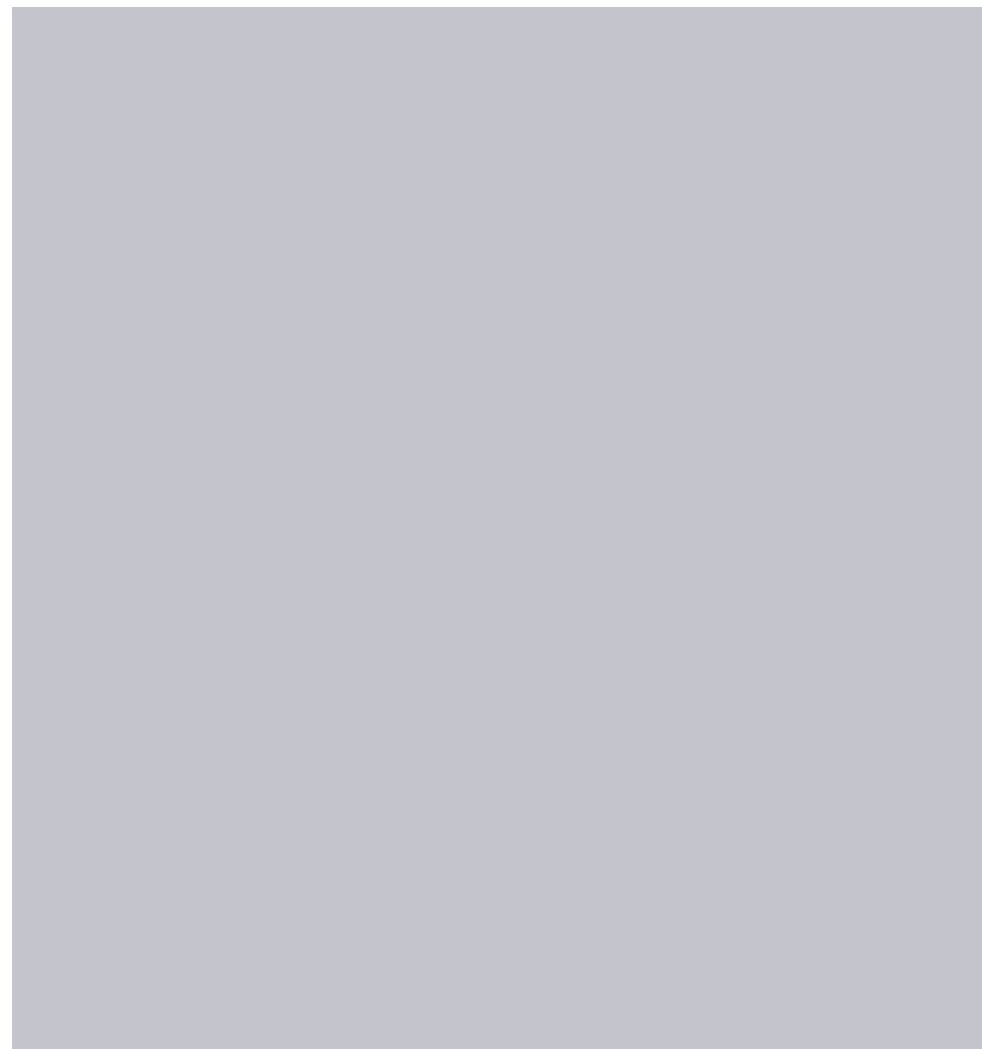
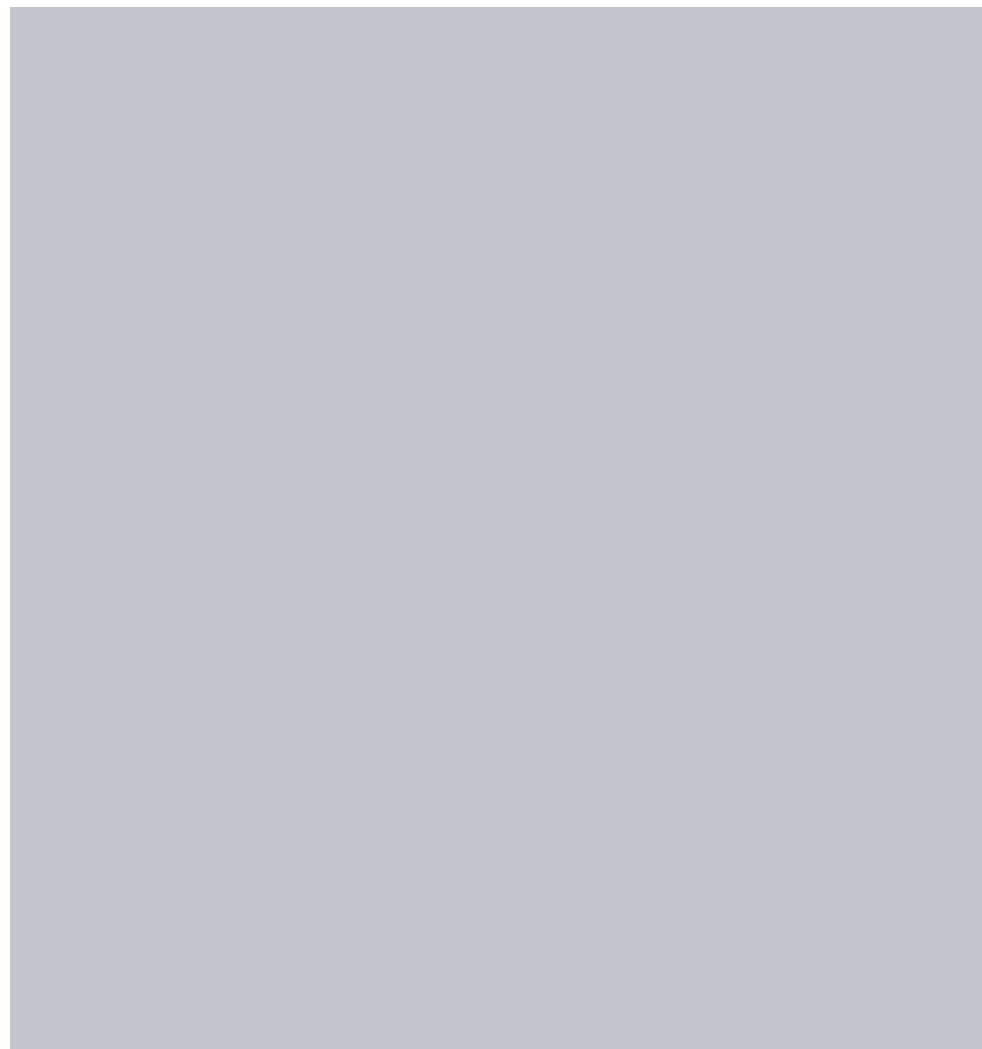
- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have no other matters to report.

Results and findings - Audit Report

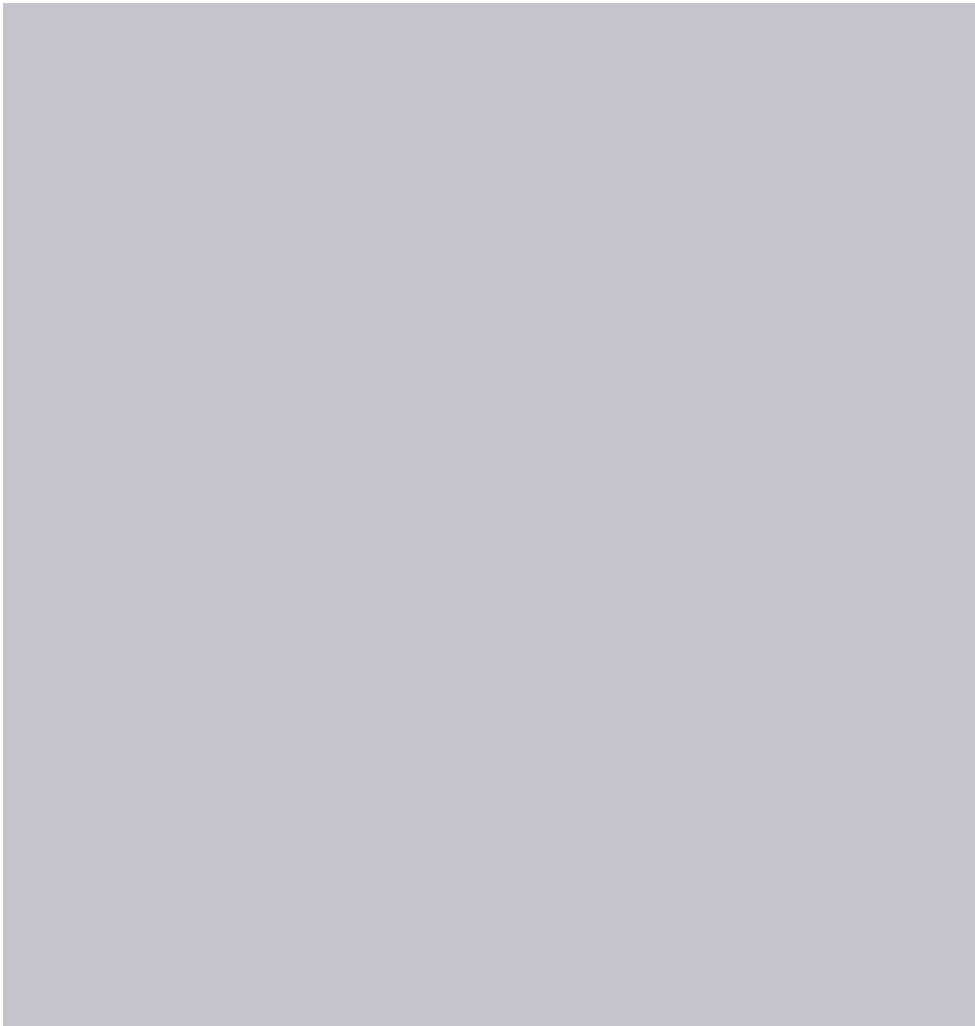
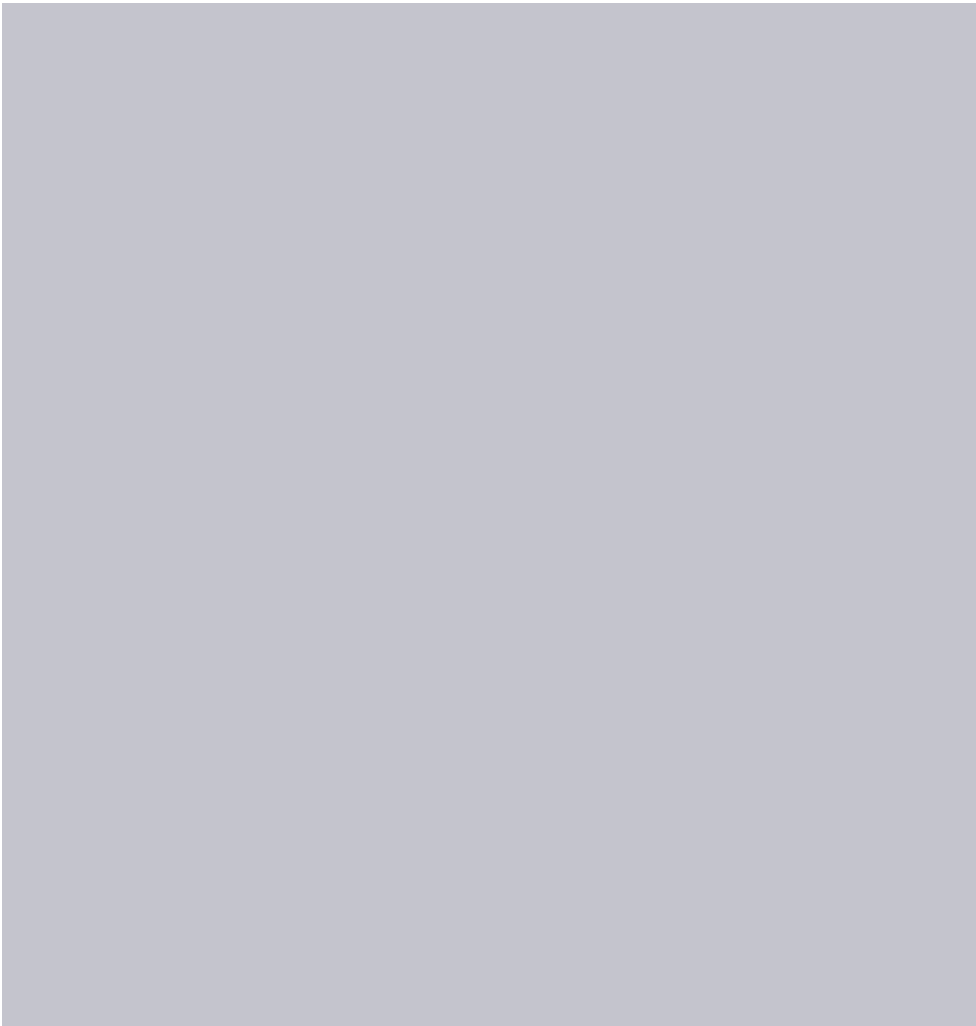
Draft audit report

Our opinion on the financial statements



Results and findings - Audit Report (cont'd)

Our opinion on the financial statements





04 Value for Money



VFM – Purpose and Risks of Significant Weakness

Purpose

Auditors are required to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report to comply with the requirements of the 2020 Code of Audit Practice (updated for 2024) and Auditor Guidance Note 3 (AGN 03). For 2020/21, 2021/22, 2022/23, the annual commentary is included in this report.

The 2024 Code has reduced the scope of the VFM reporting up to and including the 2022/23 financial year. However, in the February 2024 consultation on the new Code, the NAO stated that where auditors have begun or already undertaken work that no longer falls under the reduced scope, they may still report on it in accordance with paragraph 13 of Schedule 3 of the 2024 Code. EY are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Section 151 Officer;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

VFM - Reporting

Reporting

Our commentary for 2020/21, 2021/22 and 2022/23 is set out over pages 24 to 27. The commentary on these pages summarises our understanding of the arrangements at the Authority based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2020/21, 2021/22 and 2022/23.

The detailed arrangements and processes underpinning the reporting criteria were reported within our Interim VFM Arrangements Report which was issued to management on 4 October 2024.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	The Council has experienced financial pressures including uncertainty in long-term funding, and the impact of Covid-19 on income recovery and in particular a significant increase in the demand for personalised services for children and adults. This is in the context of suffering from historic low financial resilience due to a low council tax base and low levels of reserves. There has been an ongoing consideration of the Council's future financial sustainability. The challenge lies in securing financial sustainability and balancing its budget in the coming years.	<ul style="list-style-type: none"> The risk was considered through monitoring the financial position for 2020/21, 2021/22 and 2022/23 and the delivery against the planned budget. <p>No significant weakness for 2020/21 and 2021/22.</p> <ul style="list-style-type: none"> Our work identified that the Council has reported uncertainties regarding the future financial position of the Council and that the reported 2022/23 position was supported using one-off mitigations. As reported by the Section 151 officer this is not sustainable in future years. <p>Significant weakness in arrangements for 2022/23.</p>
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	No significant weaknesses identified.	No significant weaknesses identified.

VFM - Reporting (continued)

Reporting

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<p>Governance: How the Council ensures that it makes informed decisions and properly manages its risks</p>	<p>The 2019 Ofsted inspection report identified Council's performance in respect of children's social care services were inadequate.</p>	<ul style="list-style-type: none"> The Secretary of State for Education noted that performance in respect of children's social care services were 'inadequate' and appointed a Children's Services Commissioner on 16 May 2019. The Council were directed to comply with the Commissioner in relation to the improvement of the Council's children's social care functions. On the 13 March 2020 a third direction was issued instructing the Council to work with the Commissioner and to enter a formal partnership arrangement with Leeds City Council to support the delivery of all its children's social care services functions. On the 17 August 2021 a fourth direction was issued to appoint a new commissioner to continue to support the improvement and delivery of children's social care services functions, at the date of this report this direction is still open. Ofsted conducted an inspection on Stoke-on-Trent's children services inspection between 3 to 14 October 2022. The inspection assessed the Council as overall "Requires Improvement to be good" and were graded "Requires Improvement to good" in the judgement areas of: "The impact of leaders on social work practice with children and families" and "The experiences and progress of children who need help and protection". The report stated that services for vulnerable children and families had substantially improved since the 2019 inspection when services were found to be inadequate and previous systemic failures had been addressed incrementally. In October 2023 Ofsted completed a focussed visit which found the Council has maintained a focus on planning and achieving permanence for children and improving the quality of social work practice in the area thus more children are achieving security and stability through permanence at home with their parents, with connected carers or foster carers and through adoption. Senior leaders had an accurate understanding of the strengths of their service and the areas which require further development. Ofsted stated that the Council still requires improvement in consistency of management oversight and in life-story work for all children, to support their understanding of their experiences and the decision-making about their lives. Following the improvements reported in the 2023 monitoring visit, the Department have now withdrawn the need for a Commissioner although the Council still benefits from the support of an Improvement Adviser, who chairs the Children's Improvement Board.

Significant weakness in arrangements for 2020/21, 2021/22 and 2022/23.

Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Significant weakness identified

The Council have appropriate arrangements to set a budget prepare the Medium-Term Financial Strategy (MTFS) and monitor the financial position.

The Council has reported:

- An underspend of £16.3m against a net budgeted expenditure of £229.1m for 2020/21 with a General Fund balance of £11m and Earmarked Reserves of £91.3m
- An underspend of £0.4m against a net budgeted expenditure of £239.4m for 2021/22 with a General Fund balance of £11.4m and Earmarked Reserves of £91.2m
- An underspend of £0.5m against a net budgeted expenditure of £250m for 2022/23 with a General Fund balance of £11.9m and Earmarked Reserves of £59.2m.

On the 12 September 2023, the section 151 officer reported to the Cabinet that at the end of June 2023 there were emerging risks of £23.4m, for 2023/24, and that as a result of management actions this had been mitigated to net pressures of £8.5m on the General Fund. The section 151 officer also reported that the Council was in an extremely challenging financial situation which needed to be managed very closely and that unless ongoing pressures from personalised services could be addressed the Council would be at significant risk of not being able to set a balanced budget for 2024/25. The government announced on 29 February 2024 a decision to provide £42.2m Exceptional Financial Support (£20.5m for 2023/24 and £21.7m for 2024/25) to the Council. The financial support was in line with the request made by the Council based upon the significant pressures facing the Council, in particular the demand and cost pressures relating to children's services. The section 151 officer reported at the budget setting meeting on 5 March 2024 that if financial support was not accepted any shortfall would need to be funded from earmarked reserves which was not a sustainable solution, with the Council showing low levels of financial resilience due to low levels of reserves and a low tax base. The Council agreed to accept the support provided to set a balanced budget for 2024/25 and noted the challenges reported by the s151 officer that exist for 2025/26 with an estimated forecast gap, subject to future financial settlements and prior to development of future years' savings, of £17.8m.

The s151 Officer, in recognising the risks facing the Council, engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to complete an external review of the Council's position. CIPFA issued their report in October 2023 and concluded that:

- The Council is working at pace to find ways of reducing spend, increasing financial headroom to balance the 2024/25 budget. However, the Council has been faced with a long-term structural deficit.
- There is a culture of corporate parenting and a dependency culture across the City that has existed for many years which is a difficult problem to shift and the demand for critical services shows no signs of abating. There continues to be an increase in the levels of demand for personalised service and the levels of inflation have been sustained.
- Significant work has been undertaken to cease non-critical expenditure and to identify new savings that can be delivered in-year.
- The Council's level of financial resilience is considered "critical".

The financial challenges facing the Council are significant and the Council needs to ensure that: there are robust financial monitoring processes in place; and that agreed savings plans are delivered.

The one-off mitigations used to address the reported 2022/23 overspend included savings resulting from the lump sum payment into the Local Government Pension Scheme (LGPS) and the use of earmarked reserves to support service expenditure. The use of one-off mitigations to manage the financial position is not sustainable and represents a significant weakness in arrangements for 2022/23.

Conclusion: The Council did not have appropriate arrangements to plan and manage its resources to continue to deliver its services for 2022/23.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weaknesses identified

Decision reports for the Council and Cabinet include consideration of the financial and legal implications for any decision. Where relevant the Council's legal team provides service managers with advice on legislative or regulatory requirements.

The Council has in place a Risk Management Policy and Strategy and a strategic risk register. All identified significant risks are recorded in the strategic risk register with allocated lead officers to manage each risk. The directorate and strategic registers are maintained by the Senior Leadership Team and the strategic risk register is overseen and challenged by the Audit and Standards Committee.

The resource needs and budget allocations are based on a process that involves directors setting out their forecast pressures and demands for the coming period. As part of the budget setting process and these requirements are considered and challenged by the Senior Management Team. The budget setting is informed by an assessment of risks and assumptions including forecasts for inflation, changes in service delivery, consideration of future finances including central government funding and fees and charges, and forward forecasts of the Council's financial position with sensitivity analysis of these forecasts.

The Council published their draft 2020/21, 2021/22 and 2022/23 financial statements and advertised and held the inspection periods for members of the public in line with regulations. We confirm that the 2020/21, 2021/22 to 2022/23 draft financial statements were arithmetically correct with minor errors communicated to management for their consideration and correction, agreed to the data in the general ledger, and prepared in line with the content required by the CIPFA Code.

Children's Social Care Services

The Secretary of State for Education noted that performance in respect of children's social care services were 'inadequate' and appointed a Children's Services Commissioner on 16 May 2019. The Council were directed to comply with the Commissioner in relation to the improvement of the Council's children's social care functions. The Commissioner's report of 9 September 2019 concluded that to secure sustained improvement to children's social care services the Council should enter into a formal partnership with a strong Local Authority to provide executive leadership, and bring additional expertise and capacity. Following the report the Secretary of State was satisfied that the Council was still failing to perform to an adequate standard and issued a second direction and reappointed the Commissioner on the 31 October 2019. On the 13 March 2020, a third direction was issued instructing the Council to work with the Commissioner and to enter a formal partnership arrangement with Leeds City Council. On the 17 August 2021, a fourth direction was issued to appoint a new commissioner to continue to support the improvement and delivery of children's social care services functions at the time of this report this direction is still open.

Ofsted conducted an inspection on Stoke-on-Trent's children services inspection between 3 to 14 October 2022. The inspection assessed the Council as overall "Requires Improvement to be good" and were graded "Requires Improvement to good" in the judgement areas of: "The impact of leaders on social work practice with children and families" and "The experiences and progress of children who need help and protection". The report stated that services for vulnerable children and families had substantially improved since the 2019 inspection when services were found to be inadequate and previous systemic failures had been addressed incrementally. It was reported that further improvement was required in the quality of case recording, timely completion of life-story work, management oversight and further stability in staffing capacity. Ofsted recognised that leaders acknowledged that there was more to do to ensure all children benefit from improved services.

Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weaknesses identified

In October 2023 Ofsted completed a focussed visit which found the Council has maintained a focus on planning and achieving permanence for children and improving the quality of social work practice in the area thus more children are achieving security and stability through permanence at home with their parents, with connected carers or foster carers and through adoption. Senior leaders had an accurate understanding of the strengths of their service and the areas which require further development. Ofsted stated that the Council still requires improvement in consistency of management oversight and in life-story work for all children, to support their understanding of their experiences and the decision-making about their lives. Following the improvements reported in the 2023 monitoring visit, the Department withdrew the need for a Commissioner although the Council still benefits from the support of an Improvement Adviser, who chairs the Children's Improvement Board.

The open direction issued by the Secretary of State and the findings of Ofsted are evidence of significant weaknesses in arrangements for how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency for 2020/21, 2021/22 and 2022/23.

Conclusion: Based on the work performed, Stoke-On-Trent does not have proper arrangements in place in 2020/21, 2021/22 and 2022/23 to make informed decisions and properly manage its risks.

Value for Money Commentary (continued)

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

No significant weaknesses identified

The Council has arrangements for monitoring compliance with the Member Code of Conduct (including gifts and hospitality). The Officer Register of Gifts and Hospitality is subject to review by the Monitoring Officer to ensure it is consistent with the Members Register of Interest. Decision reports for the Council and Cabinet include consideration of the legal implications for any decision. Where relevant the Council's legal team provides service managers with advice on legislative or regulatory requirements.

The Council's performance monitoring and management processes include:

- Use of benchmarking tools to measure the Council's performance against local authorities to identify areas for investigation where spend is outside the benchmark position.
- The use of performance measures for the services provided by directorates, this includes the reporting of relevant performance information in reports to Cabinet.
- The provision of financial reports to all budget holders with variances analysis to target areas for management focus. The Financial Review Group meets on a fortnightly basis to review financial performance the group is chaired by the section 151 Officer with attendance from directors from all service areas.

We have reviewed Council minutes, documents and reports presented at relevant Committee meetings, the Council has appropriate arrangements in place to enable it to carry out its plan and manage its resources effectively.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2020/21, 2021/22 and 2022/23 to enable it to plan and manage its resources to support the delivery its services.



05 Appendices

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the opinion being issued.

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

This letter of representations is provided in connection with your audit of the [consolidated and parent] Authority financial statements of [name of entity] ("the [Group and] authority") for the year ended [balance sheet date]. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent Authority financial statements give a true and fair view of (or 'present fairly, in all material respects,') the [Group and] authority financial position of [name of entity] as of [balance sheet date] and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the [Group and] the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our [consolidated and parent] Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist. Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the [Group and the parent] Authority, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the [Group and] authority, our responsibility for the fair presentation of the consolidated and parent Authority financial statements. We believe the [consolidated and parent] Authority financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the [Group and parent] Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20xx/xx (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the [Group and] authority financial statements are appropriately described in the [Group and] authority financial statements.
4. As members of management of the [Group and] authority, we believe that the [Group and] authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [applicable financial reporting framework] for the Group and [applicable financial reporting framework] for the Council that are free from material misstatement, whether due to fraud or error.

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5. *[When there are unadjusted audit differences in the current year]* We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parent Authority financial statements taken as a whole. We have not corrected these differences because *[specify reasons for not correcting misstatement]*.
6. *[When the comparative figures have been restated]* The comparative amounts have been restated to reflect the below matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's consolidated and parent Authority financial statements. *[Add a paragraph providing a brief description of each matter giving rise to a restatement and the amount(s) concerned.]* There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and parent Authority financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and parent Authority financial statements for the year ended *[date]* are solely the result of reclassifications for comparative purposes.
7. We confirm the *[Group and]* authority does not have securities (debt or equity) listed on a recognized exchange.
8. We have confirmed to you any changes in service organizations within the *[Group and]* authority since the last audited financial year.

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

1. We acknowledge that we are responsible to determine that the *[Group and]* authority's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the *[consolidated and parent]* Authority financial statements may be materially misstated as a result of fraud.
4. *[When management is aware of the occurrence of non-compliance with laws or regulations, or has received allegations of non-compliance with laws and regulations.]* We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the *[Group or]* Authority (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), including non-compliance matters:
 - Involving financial improprieties
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the *[consolidated and parent]* Authority financial statements
 - Related to laws or regulations that have an indirect effect on amounts and disclosures in the *[consolidated and parent]* Authority financial statements, but compliance with which may be fundamental to the operations of the *[Group and]* authority's business, its ability to continue in business, or to avoid material penalties

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- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the [consolidated and parent] Authority financial statements.

3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the [period] to the most recent meeting on the following date: [list date].

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the [Group and] authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the [consolidated and parent] Authority financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with [applicable financial reporting framework].
6. We have disclosed to you, and the [Group and] authority has complied with, all aspects of contractual agreements that could have a material effect on the [consolidated and parent] Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the [consolidated and parent] Authority financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

Appendix A – Management representation letter

Management representation letter

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8. We have disclosed to you, and provided you full access to information and any internal investigations relating to, unauthorized access to our information technology systems that has a material effect on the [consolidated and parent] Authority financial statements, including disclosures.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the [consolidated and parent] Authority financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the consolidated and parent Authority financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note [X] to the consolidated and parent Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than the events described in Note [X] to the [consolidated and parent] Authority financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Authority financial statements or notes thereto.

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent Authority, subsidiary undertakings and associated undertakings.

H. Other information

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

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and the [Group and] authority have reflected these in the consolidated and parent financial statements.

Yours faithfully,

(Chief Financial Officer/Finance Director)

(Chairman of the Audit Committee)

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 original fees for these years were 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.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 in Appendix E.

Due to the reset enacted through Statutory Instrument (2024) No. 907 - The Accounts and Audit (Amendment) Regulations 2024, the above approach is not relevant.

	2022/23	2021/22	2020/21	2019/20
	£	£		£
Scale Fee – Code Work – Note 1	151,102	143,633	143,633	143,633
Determined Scale Fee Variation – Note 2	TBC	TBC	TBC	249,999
Total audit	TBC	TBC	TBC	393,632
Other non-audit services – Claim Certification	N/A	N/A	7,500	43,900
Total fees	TBC	TBC	TBC	437,532

Note 1 - PSAA Ltd, in line with the joint statement issued DHLUC (as at that date) and the FRC are determining the process for determining the final audit fee in respect of 2022/23

In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

Note 2 - The Council disagrees with the 2019/20 proposed scale fee variation of £249,999 which has been submitted to the PSAA Ltd for determination.

Appendix C – 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"> ▶ 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 <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>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	This Completion report for Those Charged with Governance
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ 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 	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance

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

Our Reporting to you

Required communications	What is reported?	When and where
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ 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 	This Completion report for Those Charged with Governance
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	This Completion report for Those Charged with Governance
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Completion report for Those Charged with Governance
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance

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

Our Reporting to you

Required communications	What is reported?	When and where
Independence	<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"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	This Completion report for Those Charged with Governance
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Completion report for Those Charged with Governance

Appendix D - 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

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix D - 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

Appendix E – 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. 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.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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