

Test Valley Borough Council

Draft Audit results report

Year ended 31 March 2022

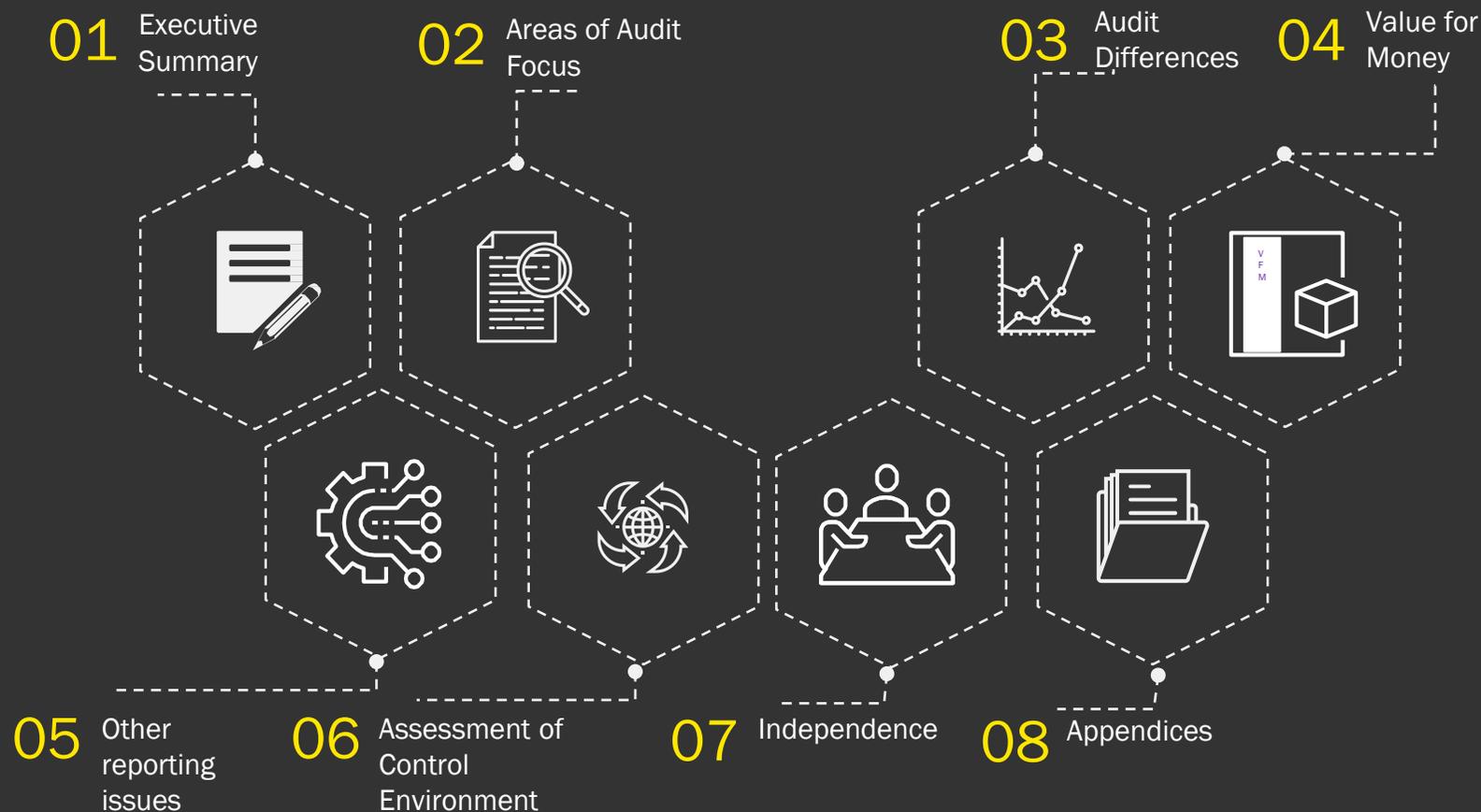
September 2022



Building a better
working world

Contents

ANNEX 2



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

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

This report is made solely to the Audit Panel members and management of Test Valley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Panel, and management of Test Valley 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 Panel members and management of Test Valley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Scope update

In our audit planning report, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Due to the timing of the Audit Planning Report, there have been no changes to the planned approach of the audit.

Status of the audit

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

- PPE Valuations
- NDR Appeals Provision
- Accounting for Nitrate Credits
- Journals Testing
- A few queries in relation to audit samples on specific transactions
- Final Review of Work
- Receipt of the Letter of Representation;
- Receipt of the final signed and approved Statement of Accounts.

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

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion. We will provide a verbal update to this position at the September Committee.

Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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

Status of the audit – Value for Money

At the time of writing this report, our planning procedures for our initial VFM (value for money) risk assessment remain ongoing. However, based on the wider planning procedures we have completed to date, we have not identified any significant weaknesses in your arrangements.

We will provide an update a verbal update to the Committee to confirm whether any further risks have been identified, and the work which has been undertaken to address them.

Audit differences

At the time of this report we note one audit difference in relation to PPE Additions and Debtors, details of which can be found in Section 3 Audit Differences. We note that work is still ongoing and therefore other audit differences may be identified going forward.

We note also a few Disclosure errors have been identified but there are not material.

Other reporting issues

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

We are still to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the instructions are yet to be issued for 2021/22. We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £2bn. Therefore, we anticipate having no issues to report. However, we will not be able to issue the audit certificate at the same time as the audit opinion, as we cannot certify the completion of the audit until this work is completed.

We have no other matters to report.

Areas of audit focus

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

Issue	Summary finding
Fraud Risk: Misstatements due to fraud or error	Work in this area is substantially complete. We note that specific journals testing is still to be performed.
Fraud Risk: Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure	Work in this area is substantially complete. PPE Additions: Testing completed. One audit difference of £111k identified. REFCUS: One query outstanding
Significant Risk: Accounting for Nitrate Credits	We note that this is a new area of accounting and disclosure. Therefore we have engaged an EY reporting specialist to look at this area and report on our expected approach. At the time of writing this report, we are yet to receive this report. Once we have received this, we will discuss the outcomes with management.
Other area of audit focus: Valuation of Land and Buildings in Property, Plant and Equipment (PPE) and Investment Properties (IP)	This work is currently underway with queries being raised to management and the external valuer. At present, we are waiting a response to those queries.
Other Area of Audit Focus: Pension Liability Valuation	We have completed our work in this area, and identified a minor disclosure misstatement which management have agreed to update. We note that we are awaiting the receipt of the response letter from the pension fund auditor which will confirm if any issues have been identified.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters we wish to report.

Independence

Please refer to Section 8 for our update on Independence.



02

Areas of Audit Focus

Areas of Audit Focus

Significant risk

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

What is the risk?

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

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, incorrectly removing the spend from the general fund through applying statutory overrides.



What did we do?

Our approach focused on the following:

- ▶ We selected a sample of Property, Plant and Equipment (PPE) and Investment Property additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.
- ▶ We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items
- ▶ When performing journals testing, we analysed entries that would be classed as high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.

What are our conclusions?

We tested a sample of PPE and Investment Property additions and noted one audit difference in relation to Property Additions for £111k.

We have one query outstanding in relation to REFCUS but note that currently they appear to be appropriately classified

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions through our test of journals or our other audit procedures which appeared unusual or outside the Council's normal course of business.

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK) 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 did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud.
- We have considered the effectiveness of management's controls designed to address the risk of fraud.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We note that our journals testing is still outstanding.

Areas of Audit Focus

Significant risk

Accounting for Nitrate Credits



What is the risk?

In September 2020 the Department for Environment Food & Rural Affairs (DEFRA) announced the intention to set up a 'Nitrate trading' platform. The idea is that housing developers would be able to buy 'nitrate credits' to offset the footprint of new homes in areas particularly vulnerable to nitrate pollution. Credits could involve funding the creation of habitat like wetlands, meadows and woodland. Developers will need an 'Appropriate Assessment' of the development proposal if there is a likelihood to increase nitrogen loading into protected sites. A nitrogen budget must be calculated and if the site is not nitrate neutral then nitrate mitigation will be required. If this does not result in neutrality, then planning will be refused. The Government announced a pilot scheme in September 2020 to enable development on the Solent in Hampshire where development was prevented because of nitrate pollution to the Solent strait.

The Council has purchased Nitrate Credits within 2021/22. The nitrate credits will therefore need to be accounted for on the Council's balance sheet. The credits need to be valued using an appropriate basis. Given the scheme is new there is not yet an accepted accounting approach for valuation and disclosure of the credits and then how income should be recognised by the Council as the credits are sold.

We will therefore need to understand and agree the approach to accounting and disclosure of this in the 2021/22 financial statements, involving EY financial reporting specialists as necessary to support our work in this area.

What will we do?

We will:

- Ensure that the Nitrate Credits have been valued correctly and on an appropriate basis in the financial statements.
- Ensure the Council has appropriate Powers in place to be able to trade these credits
- Review and challenge the Council's accounting and disclosure assessment as part of our work. This will need to consider both whether the nitrate credits held by the Council should be carried as an asset on its balance sheet and how revenue is recognised in the financial statements as the credits are sold.

Given this is a new area where arrangements for accounting and disclosure are not yet clear have involved an EY financial reporting specialist to support our work. Currently, we are waiting to receive this report. Once we have received this we will discuss the outcomes with management and provide an update in relation to this area to the December Committee.

Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
<p>Valuation of Property, Plant and Equipment (PPE) including Investment Property</p> <p>Property, Plant and Equipment land and buildings (L&B) measured at Fair Value (FV) or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated; • Considered changes to useful economic lives as a result of the most recent valuation; and • Tested accounting entries have been correctly processed in the financial statements. 	<p>At the time of writing this report, queries have been sent to both management and the external valuer in relation to PPE and IP Valuations.</p> <p>We are currently waiting on a response to these queries. An update to this will be provided to the December Committee.</p>

Other areas of audit focus

What is the area of focus?

Valuation of Pension Liabilities (Local Government Pension Scheme)

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 Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2022 this totalled £57 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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

In the previous year the pension liability disclosed in the accounts was impacted by national issues that necessitated an updated IAS 19 report from the actuary. It was also impacted by material changes to the value of pension assets at the year end, compared to the estimate made by the actuary to inform the original IAS 19 report.

What did we do?

In order to address this risk we carried out a range of procedures including:

- liaising with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Test Valley BC.
- assessing the work of the LGPS Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Auditors, and considering any relevant reviews by the EY actuarial team; and
- reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19, including any updates to the value of year end assets.

In response to the updated requirements of ISA540, we modified our planned approach and undertook alternate procedures to create an auditor's estimate on the gross pension liability.

What are our conclusions?

We have concluded that we could rely on the work of the Pension Fund actuary, and assessed their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.

The results of the EY pensions specialist has confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.

We note that we have not yet received the response letter from the Pension Fund auditors in relation to the pension asset valuations and other work, but their latest update is that there are no material issues identified.



03

Audit Differences



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

Summary of adjusted and unadjusted differences

We highlight the following misstatements greater than our nominal value of £69k that were identified during the course of our audit. We note that we have not yet received the updated Accounts from management and therefore the classification of these adjustments i.e. uncorrected or corrected may change.

Uncorrected misstatements

Overstatement of a Loan Debtor/Understatement of Investment Property AUC of £111k.

Corrected misstatements

- No items to report

Amendments to disclosures

- Minor Note adjustments noted in relation to Note 11, Note 14 and Note 21.



04

Value for Money

Value for money

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

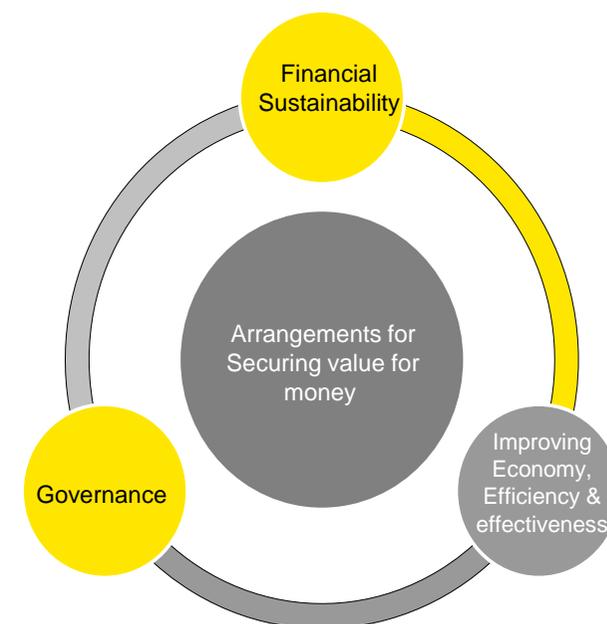
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

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

Risk assessment and Status of our VFM work

At the time of writing this report, our planning procedures for our initial VFM (value for money) risk assessment remain ongoing. However, based on the wider planning procedures we have completed to date, we have not identified any significant weaknesses in your arrangements.

We will update the Committee once our risk assessment is complete to confirm whether any further risks have been identified, and the work which has been undertaken to address them.





05 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited financial statements

- Financial information in the Narrative Statement and published with the financial statements was consistent with the audited financial statements

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

- We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We are unable to complete the WGA procedures as the NAO has yet to issued the group instruction as HM Treasury have yet to issue the guidance to Local Authorities.

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.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

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 Test Valley Borough Council’s financial reporting process. We have no other matters to report.



06

Assessment of Control Environment

 Assessment of Control Environment**Financial controls**

It is the responsibility of the Test Valley Borough Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Test Valley Borough Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

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



07

Independence

Appendix A

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.

A breakdown of our fees is shown in the table below.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee	40,679	40,679
Scale Fee Rebasing (note 1)	25,612	25,612
Scale Fee Variation (note 2)	1,828	15,165
Scale Fee Variation – changes in the Code of Audit Practice and Auditing Standards (note 3)	8,587	8,587
Total fees	76,706	90,043

We note that at this stage, the above fees are estimations and are subject to change based on any new information/issues arising and the PSAA rates.
All fees exclude VAT.

2021/22 Fees:

Note 1: Proposed Scale Fee Rebasing: this relates to our scale fee rebasing for the audit, to take into account changes in professional and regulatory requirements to that date. These have been raised in prior year audits and as these are ongoing requirements, we have included the resource impact again in our 2021/22 requested fees. This is the same request that has been submitted in the prior year.

Note 2: This figure also includes a variation to the scale fee for items specific to the audit year where we will be submitting a request for an additional fee due to additional work being undertaken by the audit team. For 2021/22 it includes work undertaken on:

- New Significant Risk: Nitrate Credits (estimated £1,223)
- Work of EY expert to calculate an auditors estimate of the pension liability (estimated £605)

Note 3: This figure shows the impacts of the NAO's 2020 Code of Audit Practice, and the revised ISA540 on estimates. PSAA communicated fee ranges for each type of client, and our assessed impact for Test Valley BC is at the bottom of those ranges. Our estimate is based on a roll-forward of the submission to PSAA from 2020/21.

At the time of writing this report PSAA have not yet determined the final fee for 2020/21.

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

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Other communications

EY Transparency Report 2020

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

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

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



08

Appendices

 Appendix A

Outstanding matters

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

Item 	Actions to resolve 	Responsibility 
PPE and IP Valuations	<p>Initial queries have been sent to Management and the External Valuer in relation to PPE and IP valuations.</p> <p>Once responses to these queries have been received, we will need to work through these and review the reasonableness of the valuations.</p>	EY and Management
NDR Appeals Provision	<p>Audit work identified queries in relation to the NDR Appeals Provision calculation. This was pushed back to Management and Management identified that incorrect data had been used in the calculation and therefore this needed to be re-worked. This is currently with management.</p> <p>Once we have had a response to these we will need to work through the calculation again and discuss any further with Management.</p>	EY and Management
Accounting for Nitrate Credits	<p>EY Financial Transaction specialists currently working on a report which will be provided to audit teams documenting a consistent approach to Nitrate Credits,</p> <p>Once this report is received we will need to discuss the outcomes with management.</p>	EY and Management
Final few queries in relation to audit samples	<p>There are a few queries outstanding in relation to audit samples and queries that have been raised e.g. Creditors and Debtors. Once we have received these back from Management we will need to work through the responses.</p>	EY and Management
Receipt of Letter of Representation	<p>Letter of Representation to be signed before the signing of the Audit. Once we are ready to sign, we will discuss the steps to finalise this with management.</p>	EY and Management
Receipts and Review of Final Accounts	<p>Once audit work has been finalised, we will need to receive the final Accounts from Management and check these for any adjustments.</p>	EY and Management

 Appendix A

Outstanding matters

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures remain to be finalised and audited.

We note that a verbal update can be provided at the September Audit Committee with a formal update provided at the December Committee.

 Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to **the Audit Committee**.

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report Auditor's Annual Report

 Appendix B

Required communications with the Audit Committee (continued)

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

 Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Planning Report and Audit Results Report

 Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit results report

 Appendix B

Required communications with the Audit Committee (continued)

		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
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report Auditor's Annual Report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report
Value for Money	<ul style="list-style-type: none"> Risks of significant weakness identified in planning work Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 	Audit planning report Audit results report Auditor's Annual Report

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