West London Waste Authority

Draft Audit Planning Report

Year ended 31 March 2022

7 Jan 2022

Building a better working world

Audit Committee
West London Waste Authority
Unit 6, Britannia Court, The Green
West Drayton
UB7 7PN

7 Jan 2022

Dear Audit Committee Members

Draft Audit Planning Report

Our planning is underway for 2021/22 and we are pleased to attach our Draft Audit Planning Report which sets out our initial consideration of how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 21 Jan 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain

For and on behalf of Ernst & Young LLP

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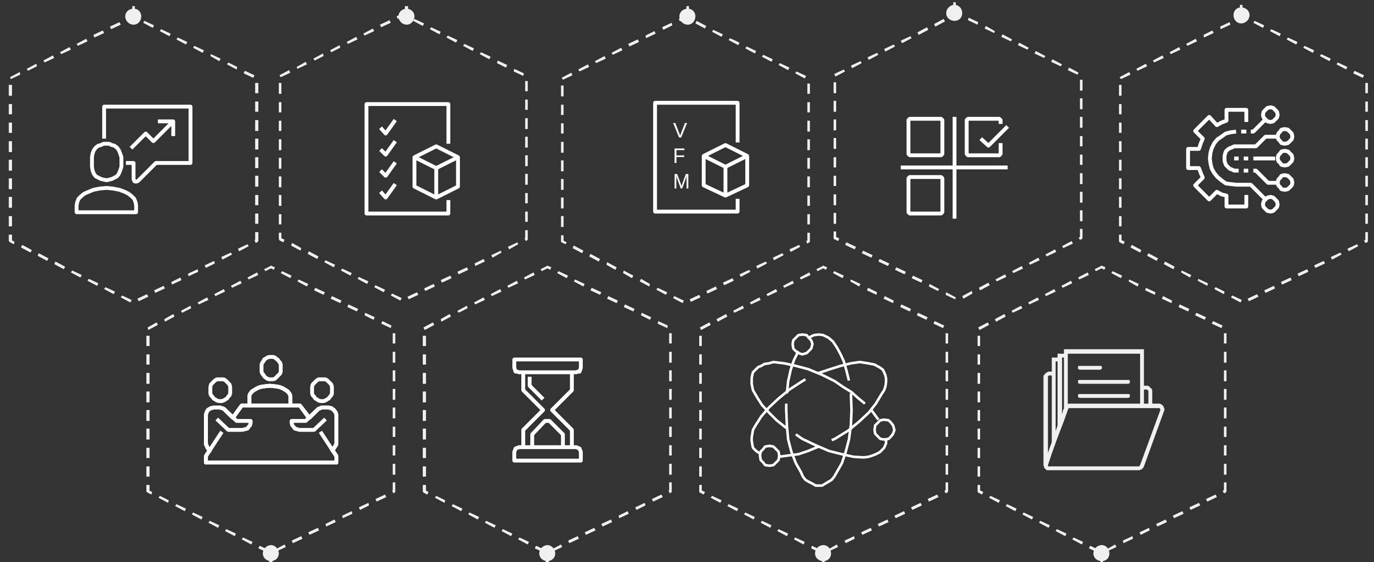
Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of West London Waste Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of West London Waste Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of West London Waste Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	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.
Valuation of Property, Plant and Equipment (PPE)	Significant risk	No change in risk or focus	At 31 March 2021, the asset values of £203 million represented a significant proportion of the Authority's balance sheet, with a risk that even a small fluctuation in value could have a material impact on the Comprehensive Income and Expenditure Statement and on asset carrying values. By their nature, PPE assets are more difficult to value because their valuation includes an element of judgement, which increases the risk of misstatement. This continues to more uncertain in the context of Covid-19.
Pension liability valuation	Inherent risk	No change in risk or focus	The Authority's pension fund deficit is a material estimated balance disclosed on the Authority's balance sheet. At 31 March 2021 this totalled £11 million. Accounting for this scheme involves significant estimation and judgement, management engages an actuary to undertake the calculations on their behalf. We will liaise with the auditors of the pension fund to gain assurance over the information supporting this balance.
PPP liability	Inherent risk	No change in risk or focus	The Authority's PPP liability is a material liability which is calculated by a modeller into which the Authority inputs assumptions. The assumptions entered into the model are a form of management estimate.
IFRS 16 preparedness assessment and disclosure requirements	Inherent risk	New area of focus	IFRS 16 application date is delayed to 1st April 2022 however preparedness assessment and disclosures are required in 21/22 accounts.

Overview of our 2021/22 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Disclosures on Going Concern	Inherent risk	No change in risk or focus	The ongoing unpredictability of the current environment gives rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.

Overview of our 2021/22 audit strategy

Materiality

Planning materiality	£1.28m	Planning materiality represents 2% of the prior year's gross expenditure on provision of services, consistent year on year.
Performance materiality	£0.96m	Performance materiality represents 75% of planning materiality, consistent year on year.
Audit differences	£0.06m	We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £60,000, which is calculated as 5% of planning materiality. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2021/22 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of West London Waste Authority give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and

- Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example: the valuations of land and buildings, the valuation of pension obligations especially under the revised ISA 540 requirements, going concern considerations under ISA 570, the introduction of new accounting standards such as IFRS 9,15 and 16 in recent years as well as new Value For Money criteria set out in the 2020 NAO Code for Audit Practice. Therefore to the extent any of these or any other risks are relevant in the context of West London Waste Authority's audit, we will discuss these with management as to the impact on the scale fee.

02 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error*

What is the risk?

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.

As a result, there is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

What will we do?

- Identify fraud risks during the planning stages.
- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Determine an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including
    - Testing of journal entries and other adjustments in the preparation of the financial statements.
    - Reviewing accounting estimates for evidence of management bias.
    - Evaluating the business rationale for significant unusual transactions.

Our response to significant risks (continued)

Valuation of Property, Plant and Equipment

Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of Property, Plant and Equipment (31 March 2021: £204m).

What is the risk?

The Local Authority Accounting Code of Practice require the Council to make extensive disclosures within its financial statements regarding its land and buildings.

The last full revaluation of assets was undertaken by management's experts as of 31 March 2019. A full revaluation has been scheduled for 31 March 2022. The approach undertaken by management is to revalue all PPE assets at least every five years and to review the residual value, useful life and depreciation method as well as to identify any indicators of impairment at least at each financial year-end.

Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Asset values are significant and there is a risk that even a small movement in valuation could have a material impact on the Comprehensive Income and Expenditure Statement and on asset carrying values.

What will we do?

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

- Consider the work performed by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Assess the reasonableness of the valuer's valuation approach and assumptions applied including any change to useful economic lives and the completeness and accuracy of the source data used in the valuation models;
- Consider sufficiency of Authority's challenge of valuer's work
- Assess accounting estimates for evidence of management bias;
- Identify whether management has performed an appropriate impairment review and the results have been appropriately considered in the account balances and financial statements disclosures; and
- Consider the potential impact of Covid-19 on valuation uncertainties while also evaluating the need to involve our internal specialist valuations team; and
- Test accounting entries have been correctly processed in the financial statements.
- Ensure that appropriate and sufficient disclosures regarding the assets valuation are included in the financial statements

Other areas of audit focus and inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the area of focus/ inherent risk?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the London Pensions Fund Authority (LPFA) Pension Fund. The Authority's pension fund liability is a material estimated balance and the CIPFA Code requires that this liability be disclosed on Authority's balance sheet. At 31 March 2021 this totalled £11 million. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the London Pensions Fund Authority. Accounting for this scheme 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.	We will: • Liaise with the auditors of the LPFA Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Authority; • Assess the work of the Pension Fund actuaries, including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the West London Waste Authority's financial statements in relation to IAS19.
Public-Private Partnership (PPP) The Authority has one PPP arrangement with the Suez consortium. This is a PPP for the construction of the Severn Energy Recovery Centre. A liability is recognised as project assets are completed, equal to the fair value of each asset less capital contributions. The total value of the liability was estimated to be £108.6 million as at 31 March 2021.	We will: • include a review of the assumptions used in the PPP accounting model to assess whether there have been any changes since our initial review; • comment on adjustments, if any, by the Authority; and • review the planned entries and disclosures for the Authority's 2021/22 accounts and ensure that they reported in line with the standards.

Other areas of audit focus and inherent risk (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Going concern disclosure Continued assessment of going concern under newly effective audit standard ISA570 since 20/21 audit. The Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its waste disposal volumes and on the constituent boroughs' ability to pay the waste disposal levy, there is a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive. The Authority is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.	We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Authority's going concern assessment and its disclosure in the accounts by: • Challenging management's identification of events or conditions impacting going concern. • Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Reviewing the Authority's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern. • Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. • Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.
IFRS 16 preparedness note and disclosure requirement IFRS 16 does not come into effect for the majority of LG financial statements until 1 April 2022. However, Local Government finance teams should be acting now to assess authority's leasing positions and secure the required information to ensure compliance with the 2022/23 Code of practice on local authority accounting.	We will review the adequacy of Authority's disclosure in relation to IFRS 16 in the accounts by: • Performing disclosure checklist and assess completeness of the Authority's disclosure notes • Review the Authority's assessment of the impact of IFRS 16 on it's financial statements, in particular on its PFI arrangement.

03 Value for Money Risks

Value for Money

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

The Authority is required to maintain an effective system of internal controls 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 Authority 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 Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor's responsibilities under the 2020 Code

Continue with the 2020 NAO Code for Audit Practice which requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority 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 Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. The NAO requires auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

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

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

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

Value for Money

Planning and identifying VFM risks (continued)

However, the NAO states that a weakness may be said to be significant if it:
• Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
• Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
• Leads to – or could reasonably be expected to lead to – unlawful actions; or
• Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

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

Responding to identified risks

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

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code requires that we should refer to this by exception in the audit report on the financial statements.
Under the 2020 Code we will include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

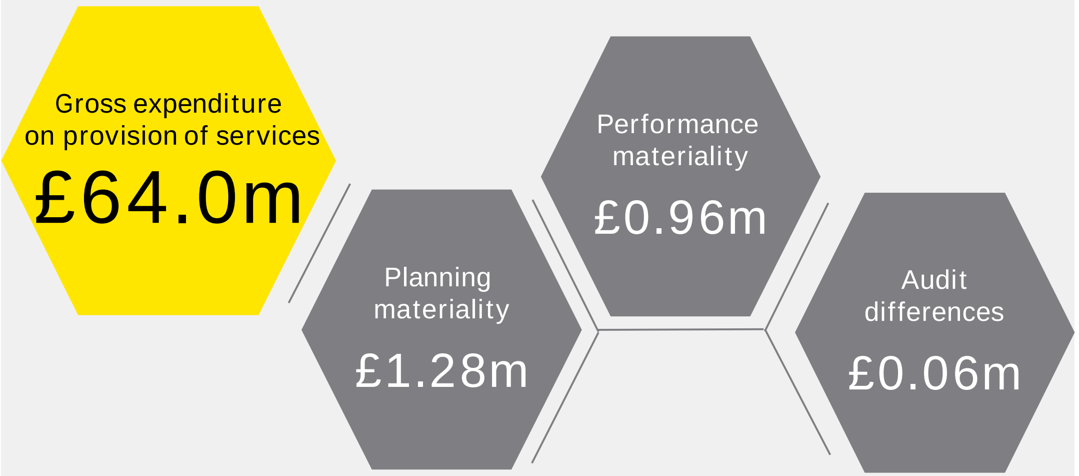
We have yet to fully finalise our detailed VFM planning. However, one area of focus will be on the arrangements that the Authority has in place in relation to financial sustainability in light of the impact of Covid-19. We will continue to update the Audit Committee meeting on the outcome of our VFM planning, any further changes to our risk assessment and also our planned response to any identified risks of significant weaknesses in arrangements.

04 Audit materiality

Materiality

Materiality

For 2021/22 planning purposes, we are using the prior year's final materiality, which was set at £1.28m. This represents 2% of the Authority's prior year gross operating expenses on provision of services. It will be reassessed throughout the audit process. The rationale for this is that the expectations of the users of the entity are focused on the measurement of expenses. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.96m which represents 75% of planning materiality. The rationale for using 75% is based on the anticipation of identifying few or no errors in routine processing of transactions throughout the year that could result in pervasive errors. This expectation has been built on our experience of the Authority in the prior year.

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

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

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

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

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

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantively testing transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

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

06 Audit team

Audit team

Audit team structure:

EY Actuaries

EY Real Estate

EY Data Analytics Team

Andrew Brittain
Partner in Charge

Cheng Sha
Engagement Manager

Shingirirai Guwamombe
Lead Senior

Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2021/22 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team – Scope to be determined once planning completed.
Pensions disclosure	EY Actuaries and PWC Actuaries

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

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

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

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	Jan – Feb 2022		
Walkthrough of key systems and processes	Feb - Mar 2022		
Interim audit testing	Feb - Mar 2022		
Audit Planning Report presented to the Audit Committee	Jan 2022 (TBC)	Audit Committee	Audit Planning Report
Year end audit: Account testing	May – Jul 2022 (TBC)	Audit Committee	Progress report setting out any changes to the audit planning and approach if applicable.
Year end audit: Audit Completion procedures	Jul 2022 (TBC)	Audit Committee and Authority meeting	Audit Results Report Audit opinions and completion certificates
Completion	Jul 2022 (TBC)	Audit Committee	Auditor's Annual Report

08 Independence

Introduction

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

Required communications	
Planning stage	Final stage
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit/additional services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ► An opportunity to discuss auditor independence issues.

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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.

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

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

Self review threats

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

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. 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.

Relationships, services and related threats and safeguards

Other threats

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

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

Other communications

EY Transparency Report 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 ended 30 June 2021 and can be found here:

EY UK 2021 Transparency Report | EY UK

09 Appendices

Appendix A - Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2021/22 accounts of opted-in principal local government and police bodies.

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 scale fee for WLWA for 2020/21 and 2021/22 Code work is £15,223. We have previously explained that we believe the underlying scale fee needs to increase due to changes in work required to address broader professional and regulatory requirements and scope associated with risk (Note 1), and we expect those increases in costs to be ongoing. In addition to this, in 2020/21 there were additional specific areas of audit work as a result of factors arising in that year (Note 2). These were:

- Audit procedures to address the significant risk around PPE valuation and additional procedures on IAS19 figures, including the impact of the revised ISA 540 auditing standard
- Specific one-off work required for Covid-19 considerations, including additional work in relation to Going Concern and professional consultations
- Additional work performed due to the new 2020 NAO Code on Value For Money requirement

We would anticipate that these factors would continue to impact the audit work required in 2021/22, but we cannot quantify the impact at this time.

Notes:

1. We remain in discussion with PSAA about the continuing need more to reflect the additional work auditors are required to do to meet regulatory requirements.
2. The 2020/21 additional fees are yet to be finalised and discussed with management. They will then be communicated to PSAA for their approval.

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Authority; and

► The Authority has an effective control environment.

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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

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

Required communications	What is reported?	Our Reporting to you 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	• 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

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: • 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	• 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 • Corrected misstatements that are significant • Material misstatements corrected by management	Audit Results Report
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit Results Report
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit Results Report

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	• 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	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • 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	• Significant deficiencies in internal controls identified during the audit	Management letter/Audit Results Report

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	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report
Fee Reporting	• 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 and Audit Results Report

Additional audit information

Other required procedures during the course of the audit

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

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

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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