Isle of Wight Council
Audit planning report update

Year ended 31 March 2022

November 2022

EY

Building a better working world

Members of the Audit Committee

16 November 2022

Isle of Wight Council
County Hall
High Street
Newport, Isle of Wight
PO30 1UD

Dear Audit Committee Members

Audit Planning Report update – Year ended 31 March 2022

This report seeks to provide the Audit Committee with an update to our risk identification for the 2021/22 audit, reflecting the changes in risks identified in the current year.

In our outline audit planning report submitted for the 25 July 2022 Audit Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We provide here an update to the significant accounting and auditing matters, and audit approach outlined in the Audit Planning Report.

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

We welcome the opportunity to discuss this report with you on 28 November 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

01 Audit risks

Our response to significant risks

We have set out the significant risks 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.

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.

We have assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax.

Update – Revenue expenditure funded by capital under statute (REFCUS)

We have further considered the impact of REFCUS in our response to this risk. The value of REFCUS in 2021/22 was £2m and therefore immaterial. No change to the risk and no change to planned procedures.

Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment.

The value of PPE additions in 2021/22 was £25m.

Our response to significant risks (continued)

We have set out the significant risks 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.

Valuation of Investment Properties

Financial statement impact

The fair value of investment properties is £41m

What is the risk?

The value of Investment Properties represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update – Increased risk to significant

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. However, some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. In light of this, in our outline Audit Planning Report issued in July 2022, we reduced the risk on investment property valuations from significant to higher inherent risk.

We have since received the valuation reports from the external valuers and whilst the investment property portfolio has remained the same, there has been a £6.3m (c.£18%) increase in valuation. This increase is greater than our materiality threshold £4.977m and we have therefore raised a significant risk in relation to investment property valuations.

Our procedures to address this risk are set out on the following page.

Our response to significant risks (continued)

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer; and
- Test accounting entries have been correctly processed in the financial statements.

Additional procedures in response to our risk include:

- Obtain input from EY Real Estates, our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the estimated rental values/yields.

Scope of our audit

Materiality

Materiality

In our outline audit planning report presented to the Audit Committee meeting on 25 July 2022 , we provided you with an overview of our materiality calculation and based the calculation on the prior year (2021/22) audited accounts. We have updated our planning materiality assessment using the 2021/22 draft statement of accounts as follows:

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1.2% of gross expenditure on provision of services, adjusted for any unusual items.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We report all uncorrected misstatements relating to the primary statements greater than 5% of planning materiality.
Outline audit planning report	£5.081 million	£3.811m	£0.254m
Audit planning report update	£4.977 million	£3.732m	£0.249m