STANDARDS AND AUDIT COMMITTEE – 18 JULY 2019

EXTERNAL AUDIT REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2018-19

Executive Summary

Attached as Appendix 1 is the External Auditor's report to those charged with Governance (ISA 260) for 2018/19. Included in the report is a draft Management Representation letter, a copy of which will be signed following approval of the Statement of Accounts by Council on 25 July 2019.

In their report, the External Auditor draws the Committee's attention to the matters of concern discovered during the audit, and any adjusted or unadjusted audit differences. The External Auditor has raised one recommendations as a result of their work on the audit which related to the processes in place to ensure income and expenditure is recorded in the correct year.

Four adjustments are proposed to the draft accounts published in May. The Council advised the External Auditor of three of the adjustments prior to the audit commencing. The remaining change relates to the calculation of the pension liability where a national issue has affected the valuations for all Councils this year.

The Standards and Audit Committee, in its role of governance and overseeing audit arrangements, is requested to receive the report and make any comments to full Council on 25 July 2019 as part of the Council's consideration of the Annual Statement of Accounts.

Recommendations

The Committee is requested to:

RECOMMEND TO COUNCIL That the Report To Those Charged with Governance (ISA 260) 2018/19 be received.

The item above will need to be dealt with by way of a recommendation to Council.

Background Papers: None.

Reporting Person: Leigh Clarke, Finance Director
Email: Leigh.Clarke@woking.gov.uk, Extn: 3277

Contact Person: Leigh Clarke, Finance Director
Email: Leigh.Clarke@woking.gov.uk, Extn: 3277

Date Published: 18 July 2019

STA19-006

1.0 Introduction

1.1 Attached as Appendix 1 is the External Auditor's report to those charged with Governance (ISA 260) for 2018/19. The report includes a draft Management Representation letter, a copy of which will be presented to Council on the 25 July 2019 for signature after approval by Council.

1.2 In their report the External Auditor, BDO, draws the Committee's attention to matters of concern discovered during the audit. The report also sets out any significant adjusted or unadjusted audit differences.

1.3 Four adjustments are proposed to the draft accounts published in May. The Council advised the External Auditor of three of the adjustments prior to the audit commencing. The remaining change relates to the calculation of the pension liability where a national issue has affected the valuations for all Councils this year.

1.4 The audit has identified one difference, £137,000, which related to the timing of income from parking permits. The report notes this finding but as it is not material the accounts will not be adjusted for this amount.

1.5 One recommendation has been raised as a result of the audit work which relates to the processes in place to ensure income and expenditure is recorded in the correct year.

1.6 The External Auditor anticipates issuing an unmodified audit opinion on the Group and the Council financial statements.

2.0 Implications

<u>Financial</u>

2.1 There are no financial implications arising from this report.

<u>Human Resource/Training and Development</u>

2.2 There are no specific HR, training and development issues arising.

<u>Community Safety</u>

2.3 There are no community safety issues.

<u>Risk Management</u>

2.4 The External Auditor had raised one recommendation as a result of their audit this year.

<u>Sustainability</u>

2.5 There are no specific sustainability issues.

<u>Equalities</u>

2.6 There are no equalities issues.

3.0 Conclusions

3.1 The Statement of Accounts will be presented for approval by Council on 25 July 2019 together with the External Auditor's report, the Management Representation letter and any comments this Committee wishes to make on the report.

3.2 The Auditors have indicated that they anticipate issuing an unqualified audit opinion by 31 July 2019 in accordance with the statutory timetable.

3.3 The Standards and Audit Committee, in its role of governance and overseeing audit arrangements, is requested to receive the report and make any comments to full Council.

REPORT ENDS

Report to the Standards and Audit Committee

WOKING BOROUGH COUNCIL

Audit Completion Report: Year ended 31 March 2019

IDEAS | PEOPLE | TRUST

BDO

CONTENTS

WELCOME
Introduction

Contents

We have pleasure in presenting our initial Audit Completion Report to the Standards and Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Standards and Audit Committee. At the completion stage of the audit it is essential that we engage with the Standards and Audit Committee on the results of our audit of the Group and the Council financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We will issue a final Audit Completion Report once any outstanding work has been completed. We look forward to discussing these matters with you at the Standards and Audit Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Standards and Audit Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

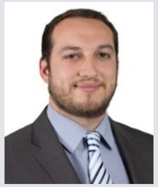
We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

Leigh Lloyd-Thomas

18 July 2019

Leigh Lloyd-Thomas
Engagement lead

t: 020 7893 2616
e: leigh.lloyd-thomas@bdo.co.uk



Matthew Vosper
Audit Manager

t: 020 7651 1593
e: matthew.vosper@bdo.co.uk

OVERVIEW
Executive summary

Contents

This summary provides an overview of the audit matters that we believe are important to the Standards and Audit Committee in reviewing the results of the audit of the financial statements of the Group and Council and use of resources of the Council for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2019 in line with the agreed timetable.

We are required to bring to your attention a significant change to the audit approach from that reported in the Audit Plan. At the meeting to discuss the Audit Plan on 11 April, we reported that we now intended to adopt an assets based overall financial statements materiality, rather than an expenditure based materiality.

This is due to the composition of the Group financial statements and the significant value of land, buildings and investment property held by the Group to generate income to support the activities of the Council. We continue to apply a lower specific materiality to the Comprehensive Income and Expenditure Statement where this impacts on the reported financial outturn from revenue resources and the impact on revenue reserves.

Details of the materiality levels adopted are shown on the next page.

There were no additional significant audit risks identified.

No restrictions were placed on our work.

Outstanding matters are listed in the appendices.

Audit report

We anticipate issuing an unmodified audit opinion on the Council and consolidated Group financial statements.

We are proposing to issue an unqualified use of resources conclusion.

THE NUMBERS

Executive summary

Contents

Page 9

Final materiality

Final Group financial statements materiality was determined based on 1% of the value of gross assets on the balance sheet. Specific materiality on the Comprehensive Income and Expenditure Statement was based on 2% of income.

Based on the draft financial statements we calculated our final materiality as:

- Group Materiality £15.65 million based on gross assets of £1.565 billion (Council £15.5 million)
- Specific CIES Group Materiality £2.6 million based on gross income of £130 million (Council £2.5 million).

We set our reporting level for clearly trivial misstatements at 2% of materiality levels.

Material misstatements and unadjusted errors

We did not identify any material misstatements.

There was 1 unadjusted difference found. This was £137k and related to annual parking permits not being adjusted to reflect when revenue should be recognsied by the Council. Please see page 9 for details.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).

We have had group instructions returned and we have reviewed the audit files of the component auditor and can confirm:

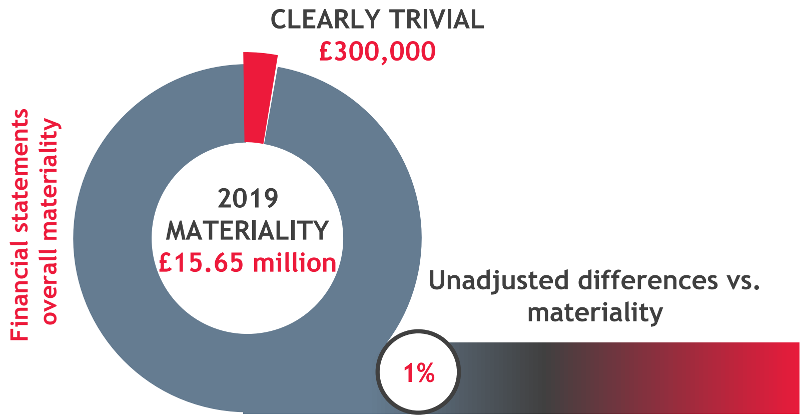
- There were no limitations on the audit where information was restricted
- There were no instances of fraud identified at a component level.

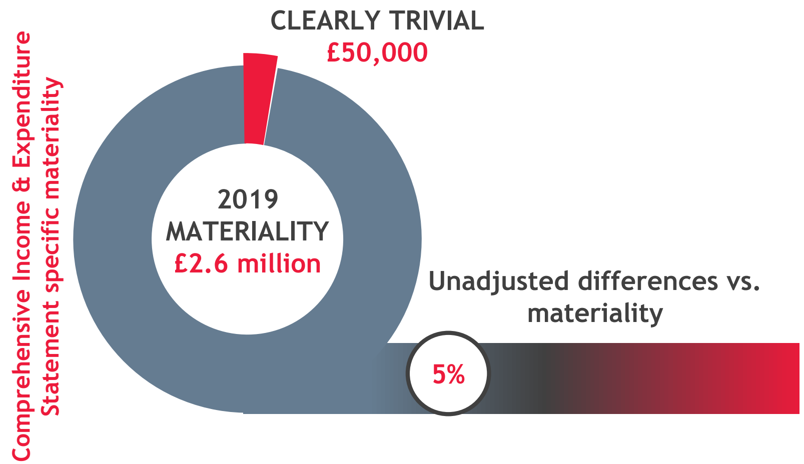
We are currently reviewing the valuation of investment property recognised in Thameswey Developments Ltd.

Audit differences the authority has agreed to amend in the accounts

Management has made adjustments to the draft accounts that has reduced gross assets by £1.052 million. This has no impact on the CIES outturn. Please see page 29 & 30 for details.

Two adjusted audit differences have also been put through the accounts to reflect the increase in pension liability following a re-estimation by the pension fund actuary. The total increase in liability was £1.88m. We have detailed the reasons for this on page 16.





Contents

Page 10

Financial reporting

- We have not identified any non-compliance with group accounting policies or the CIPFA Code.
- No significant accounting policy changes have been identified impacting the current year. IFRS 9 financial instruments and IFRS 15 revenue from contracts with customers has not had a material impact.
- Going concern disclosures are deemed sufficient.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's deadline of 13 September 2019.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Pension Fund in accordance with the Financial Reporting Council's Ethical Standard.

AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 22 March 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue and expenditure recognition	Significant	No	No	Yes	No	Reviews over cut off at financial year end should be more rigorous
PPE and investment property valuation	Significant	Yes	Yes	No	No	No
Pension liability valuation	Significant	Yes	Yes	Yes	No	To consider the impact of McCloud and GMP liabilities on the pension liability
Allowance for non-collection of receivables	Normal	No	No	No	No	No
Related party transactions	Normal	No	No	No	No	No
Classification and measurement of financial instruments (IFRS 9)	Normal	No	No	No	No	No
Revenue from contracts with customers (IFRS 15)	Normal	No	No	No	No	No
Group consolidation	Normal	No	No	No	No	No

Areas requiring your attention

Contents

Page 11

MANAGEMENT OVERRIDE OF CONTROLS

Contents

Page 12

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

- **Significant risk**
- **Normal risk**
- **Significant management judgement**
- **Use of experts**
- **Unadjusted error**
- **Adjusted error**
- **Additional disclosure required**
- **Significant Control Findings**
- **Letter of Representation point**

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud; and
- Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.

Results

Our detailed testing of a sample of journals is substantially complete and work to date has not identified any significant issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

REVENUE AND EXPENDITURE RECOGNITION

Page 13

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria had been met; and
- Tested a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

Results

We have found trivial errors in our testing of expenditure items around the year end. However, based on extrapolation of these errors, we do not believe that this presents a risk of misstatement above our trivial reporting level. We have raised a Management Letter Point with regards to preparing cut-off adjustments for the final accounts.

Our sample testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

Our testing of cut off for revenue did identify that annual parking permits were not being recognised in the correct financial reporting period when they straddled the financial year end, resulting in an overstatement of revenue of £137,000 for permits with expiry dates after the year end. This error will be recorded as an unadjusted audit error.

PPE AND INVESTMENT PROPERTY VALUATIONS

Contents

Page 14

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. The Council engages a valuation expert to value these assets on a rolling five year programme and these are valued as at 31 March.

Due to the significant value of the Council's (and Group's) land, buildings, dwellings and investment properties and the high degree of estimation required, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert; and
- Confirmed that the basis of valuation for assets valued as at year end is appropriate based on their usage.

Work in progress

- Reviewing the accuracy and completeness of asset information provided to the valuer such as rental agreements and land plot / building sizes; and
- Reviewing the assumptions used by the valuer and movements against relevant indices for similar classes of assets and following up with the valuer the use of assumptions used and challenging them on this basis.

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues.

We also confirmed basis of valuation for assets valued in year is appropriate and in line with Code.

Our work on the accuracy and completeness of asset information used as the basis of valuation and review of the assumptions used to value the assets is still on going.

PPE AND INVESTMENT PROPERTY VALUATIONS 2

Significant estimate

Values included in brackets are at the Group level.

Council dwellings at Open Market Value Social Housing (£294 million)

< lower valuation > Higher valuation

Council dwellings are valued at open market value and adjusted to 33% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional differences between market rents and social rents.

A flat rate 2.1% decrease in valuations has been applied to each property for 2018/19 (giving a total revaluation loss of £6.7 million after accounting for stock movements). 2.1% has been determined using the Nationwide Housing Price Index.

We have compared this to other house price indices, which show a national average increase of around 1.45% over the same period but prices within the South East of England dropping by 0.4%. Although the index reduction in value applied to the dwellings is slightly greater than this benchmark, it is broadly in line with the land registry data for Woking which shows an average 1.45% decrease across all properties. We have reviewed the type of property owned by Woking and are satisfied that the 2.1% decrease is reasonable based on the property portfolio mix.

We are satisfied that the valuations are within a reasonable range although may tend to the lower end of valuations based on a localised index.

Buildings at Depreciation Replacement Cost (part of Other Land and Buildings £158 million)

< lower valuation > Higher valuation

Leisure centres are valued at depreciated replacement cost using the existing gross internal area and estimated rebuild costs. This valuation is reduced to reflect the age and remaining useful economic life of the building.

Three leisure centres and one museum were revalued in the year using rebuild costs per square metre based on the mean BCIS regional prices. This resulted in a valuation of £4.7 million for museums and an increase of £5.2m for leisure centres. The increase in leisure centres is due to the completion of the Sportsbox Leisure Centre which contributed to a net £5.2m of the upwards revaluation. This was offset by an increase in valuation of Woking Parks Pool in the Park and a decrease in valuation of Woking Parks Leisure Centre.

We confirmed the cost per sq/m and location factor used to the BCIS database. For a sample of material assets we obtained the input data provided to the valuer and reviewed the valuations for accuracy.

No issues were identified as a result of this test.

Contents

PPE AND INVESTMENT PROPERTY VALUATIONS 3

Significant estimate

Contents

Page 16

Other land and buildings at Existing use value (part of Other Land and Buildings £158 million)

< lower valuation > Higher valuation

Other land and buildings valued at existing use current value have been revalued downwards by a net £1.8 million (-7%). MCSI regional capital growth indices (for buildings) show regional price movements of -9.5% for retail, +1.1% for office, and +9.6% for industrial, for the period Q1 2018 to Q1 2019. The variances observed is largely as a result of a net downwards movement across various car parks of £3.7 million offset by an increase of £1.9 million for the Monument Way Depots.

Prior to our audit of the valuation of other land and buildings held at EUV the Council challenged the valuer around the assumptions for the split between land and buildings for car park valuations. An updated valuation has since been received back from the valuers which rectifies this apportionment. This adjustment effects the valuations recorded in the CIES and revaluation reserve, but does not effect the valuation totals.

Our work on EUV is in progress.

Investment properties at fair value (£505 million)

< lower valuation > Higher valuation

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields. This could potentially include an increase where the purchaser may be able to amend the consents for use or develop the property and increase the value of the asset.

Investment properties have seen an overall decrease in valuation of £14 million in year. MSCI Sector Capital (regional) index from the Gerald Eve report suggests a small decrease in values between Q1 2018 and Q1 2019 at the effective date of revaluation.

For all material investment property revaluations we reviewed the input data provided to the actuary and assessed this against the valuation report to confirm accuracy.

Thameswey Housing Ltd recognises investment property of £162m. This population is made up entirely of residential properties in the Woking area. A desktop valuation is carried out by the company directors on an annual basis. No increase or decrease in valuation has been recognised in year. We have reviewed the work undertaken by the component auditor and are content to take assurance from their work performed. Thameswey Developments Ltd recognised £11m of investment property at 31 December 2018. We are currently reviewing the valuation of the commercial property recognised in this total.

Our work on FV of Investment properties is currently ongoing.

PPE AND INVESTMENT PROPERTY VALUATIONS 4

Significant estimate

Contents

Page 17

Assets under construction (£140 million)

< lower valuation | > Higher valuation

The Council carried AuC of £34m as 31 March 2019 which is measured at cost and not depreciated. We are reviewing the assets held within this category to ensure we are content that they have been categorised correctly.

The majority of the rest of Group's balance is made up from the recognised 'Stock' in Thameswey Housing Limited and Thameswey Developments Ltd. This is recognised in the subsidiaries at the lower of cost and net realisable value. We have reviewed the work undertaken by the component auditor and are satisfied that no impairments are necessary to these figures.

Vehicles, Plant and Equipment (£37 million)

< lower valuation | > Higher valuation

The Council recognised £5.5m as vehicles, plant and equipment as at 31 March 2019. The Council recognise vehicles, property and equipment at historical cost. The depreciation charge is recognised on a straight-line basis over the useful economic lives of assets, determined on an individual basis. We have reviewed this policy and have confirmed its reasonableness.

The rest of the Group's balance is then dominated by the plant and machinery recognised by Thameswey Energy Limited (£11.3m) and Thameswey Central Milton Keynes Limited (£16.2m). These assets are stated at cost and then depreciated on a straight-line basis over the useful economic life of the asset. The useful lives of assets in the plant and machinery category fall between 15 and 60 years. We have reviewed the work of the component auditor and are satisfied with their review on asset impairment. The remainder of the Group balance is mainly made up of fixtures and fittings purchases in year by Thameswey Housing Limited (£2m). Again we are content to place reliance on the work of the component auditor for this balance and no errors have been brought to our attention.

PENSION LIABILITY VALUATION

Contents

Page 18

There is a risk that the membership data and cash flows provided to the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions. An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.

Work in progress

- Reviewed the controls for providing accurate membership data to the actuary.

Results

We have agreed the disclosures to the information provided by the actuary and identified no issues.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

We have not yet received a response from the pension fund auditor in response to our request for assurances over the controls operated by the administering authority over the accuracy of the membership data and the information communicated to the actuary to support the liability valuation at 31 March 2019.

PENSION LIABILITY VALUATION 2

Significant estimate

Contents

Page 19

Council's pension liabilities (£171 million funded LGPS and £5 million unfunded promised retirement benefits)

< lower valuation | > Higher valuation

The Council's pension liability has increased from £163.7 million to £176.6 million and it's share of the scheme assets increased from £101.5 million to £107.8million. The net deficit increased by £6.7 million to £68.9 million. The increased liability includes £8.8 million arising from changes to financial assumptions including annual salaries increases at 2.8% (previously 2.7%), annual pension increases of 2.5% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.6%).

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- CPI increase	2.5%	2.40 - 2.50%	Reasonable
- Salary increase	2.8%	1.0 - 3.50%	Reasonable - short term assumption of +1% and post 2020 set in line with RPI
- Pension increase	2.5%	2.40 - 2.50%	Reasonable
- Discount rate	2.4%	2.40 - 2.50%	Reasonable
Commutation			
- Pre 2008	25%	25 - 75%	Reasonable
- Post 2008	63%	25 - 75%	Reasonable
Mortality:			
- Male current	24.1 years	23.7 - 24.4	Reasonable
- Female current	26.4 years	26.2 - 26.6	Reasonable
- Male retired	22.5 years	21.5 - 22.8	Reasonable
- Female retired	24.6 years	24.1 - 25.1	Reasonable
Mortality gains	CMI 2013 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Hymans Robertson do tend to produce slightly higher liabilities calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being at 103.1% using an average of all the actuaries.

PENSION LIABILITY VALUATION 3

Significant estimate

Contents

Page 20

McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not received this underpin of benefits, Government will have to remedy the discrimination in the LGPS.

The Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Council's liability could increase by £245,000 (0.14% of the liability). This is lower than forecast by GAD using a worse case scenario and we will review the assumptions used by the actuary.

GMP equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS could increase liabilities by +0.3%.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Council's liability could increase by £359,000 (0.21% of the liability). This is lower than forecast by GAD using a worse case scenario and we will review the assumptions used by the actuary.

Impact on other assumptions

A consequential impact of these adjustments has also increased the actuary's interest costs on liabilities by £8,000.

The total impact of these legal judgements has increased the Council's pension liability by £612,000.

Management will correct for these amounts and we have reported this as an audit adjustment.

NON-COLLECTION OF RECEIVABLES

Page 21

There is a risk over the valuation of the allowance for the non-collection of arrears and debt.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The Group recognises an allowance for the non-collection of receivables (arrears and debt). There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

Work completed

- Reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.
- We have reviewed the assumptions used in the expected credit loss model on financial instruments that have demonstrated a significant increase in credit risk since initial recognition.

Results

Please see the analysis of the bad debt provision across the key debtor areas over the following pages. The largest allowance for bad debt is charged against housing benefits overpayments at £1.064m. We have reviewed the bad debt allowance calculations and are content with the approach and the methods employed by the Council.

We have reviewed the information provided on the expected credit loss model and are content that no impairment has been recognised in the accounts.

NON-COLLECTION OF RECEIVABLES 2

Significant estimate

Page 22

Council tax arrears (Total collection fund £2.648 million the Council's share £334,000)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection in relation to its share of the council tax arrears of £142,000 against its share of the arrears of £334,000 (total collection fund arrears is £2.648 million). The Council's provision has increased by £7,000 from the prior year.

The provision is estimated using historic collection rate information and CIPFA recommended percentages to be applied to debt of a certain age.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of arrears.

NDR arrears (Total collection fund arrears £2.238 million the Council's share £680,000)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection in relation to its share of the NDR business rates arrears of £271,000 against its share of the arrears of £680,000 (total collection fund arrears is £2.238 million). The Council's provision has remained consistent to the figure from the prior year.

The provision is estimated using historic collection rate information and CIPFA recommended percentages to be applied to debt of a certain age.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of arrears.

Rent Deposit Scheme Debt (£481,000)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of Rent Deposit Scheme debt of £431,000 on total debt of £481,000. The Council's provision has decreased by £121,000 from the prior year. The provision is estimated using historic collection rate information and the judgement of key finance personnel. The likelihood of bad debt is high, which reflects the size of the allowance against the total debt balance.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

NON-COLLECTION OF RECEIVABLES 3

Significant estimate

Housing benefits overpayments debt (£1.963 million)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of housing benefits overpayment debt of £1.064 million on total debt of £1.963 million. This has increased by £82,000 from the prior year.

The provision is estimated using historic collection rate information and CIPFA recommended percentages to be applied to debt of a certain age.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

Housing rents arrears (£524,000)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of housing rents arrears of £318,000 on total debt of £524,000. This has increased by £18,000 from the prior year.

The provision is estimated using actual year end account arrears figures, with a judgemental recovery scale provided based upon historical recovery information.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

General Fund debt - Sundry Debtors (£3.474 million)

< lower valuation | > Higher valuation

The Council has recognised an allowance for non-collection of sundry debt arrears of £409,000 on total debt of £3,474,000. This has decreased by £320,000 from the prior year.

The provision is estimated using the year end aged debtor report and the judgement of key management personnel to inform the debt level to consider.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

Contents

RELATED PARTY TRANSACTIONS

Contents

Page 24

There is a risk that related party disclosures are not complete and accurate.

- Significant risk
- **Normal risk** (selected)
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant Control Findings
- Letter of Representation point

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Standards and Audit Committee.

There is a risk that related party disclosures are not complete or accurate.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and review councillors' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

Our testing is still in progress although we have not identified any undisclosed related party transactions within the draft accounts.

CLASSIFICATION OF FINANCIAL INSTRUMENTS (IFRS 9)

Contents

Page 25

There is a risk that financial instruments are not classified and measured in accordance with IFRS 9.

- Significant risk
- Normal risk ■
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required ■
- Significant Control Findings
- Letter of Representation point

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.
- We have reviewed the expected credit loss impairment model applied to loans secured by assets.

Work in progress

- We are currently reviewing the classification and measurement of loans to subsidiaries to ensure measurement and classification comply with the requirements of the new accounting standards.

Results

We are satisfied with the Council's assessment and classification of financial instruments under IFRS 9.

We are reviewing the classification of the loans to subsidiaries and we are also reviewing the disclosure.

We have requested that management provide additional disclosures regarding the expected credit loss note to fully comply with the requirements of IFRS 9.

REVENUE FROM CONTRACTS (IFRS 15)

Page 26

There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings

Letter of Representation point

Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised. CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.

There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that components who report under UK GAAP may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirement of the new standard.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new '5-step model' on revenue streams on both the Council and the component bodies in the Group; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

Our initial review of revenue streams suggests that there are unlikely to be material restatements required for the Council.

GROUP CONSOLIDATION

Page 27

There is a risk that due to the complexity and number of subsidiaries that there may be errors in the consolidation process and/or failure to eliminate intra-group transactions and balances.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The Group financial statements include a large number of subsidiary entities with intra-group transactions and balances to be eliminated. There is a risk that due to the complexity and number of subsidiaries that there may be errors in the consolidation process and/or failure to eliminate intra-group transactions and balances.

Many of the subsidiary entities also produce audited accounts to 31 December and there is a risk that material transactions for the remaining three months up to the Group year end at 31 March may not be reported or valuations may be materially different.

Work performed

We carried out the following planned audit procedures:

- Agreed the component entities' group consolidation returns to the audited accounts;
- Agreed any subsequent adjustments reflected in the returns for material transactions and valuation updated to 31 March 2019 to underlying transactions and valuation certificates; and
- Agreed the consolidation process and intra-group elimination of transactions and balances

Work in progress

- There are updated adjustments to be made following publication of the draft accounts. These will be reviewed by the audit team.

Results

Our audit work has not identified any issues with the consolidation adjustments put through by the Council to form the Group accounts.

We will conclude on the impact of the further adjustments on the Group accounts in due course.

OTHER MATTERS

Contents

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Financial statements format and layout including positioning of accounting policies and disclosure note references.	The format of the Statement of Accounts and financial statements follow a CIPFA model format that was replaced many years ago, and does not follow recommended practice either in accordance with the CIPFA Code or IAS 1 presentation of the financial statements. We are currently discussing with our Technical Team whether we will be required to draw to the attention of the reader that the presentation in not in accordance with the Code requirements, but this will not result in a qualification of the financial statements. We would recommend that a thorough analysis and review of the layout and format of the annual report and financial statements is undertaken.
As part of the revised pension liability report from the actuary, we note that the actuary has decreased the Council's share of the pension fund assets to £106.482 million from £107.750 million, a decrease of £1.268 million. We have not yet received a response to certain assurances sought from the pension fund auditor, that include confirmation that the actuary has used the final asset valuation for the pension fund at 31 March 2019, but we assume that the actuary had used an estimated fund valuation in the initial valuation report and has now updated this for the final fund valuation. We will confirm that the adjustment relates to the actuary using the final pension scheme assets valuation.	The actuary's updated net pension liability report includes a reduction in the Council's share of the scheme assets of £1.268 million. This would impact on the net pension liability in the balance sheet but would not impact on the reported CIES deficit of the provision of services, as these actuarial movements to fund valuations are reported through the Other Comprehensive Income section of the CIES. We have reported this as a misstatement that the Council will adjust for.

OTHER MATTERS 2

Contents

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Based on the review of the disclosures in the financial statements undertaken to date, there are some notes and disclosures that we request that management should correct.	Analysis of debtors and creditors by nature of balance rather than by counter party. Revised treasury notes (further detail to be added - draft accounts being updated). Revised accounting policies (further detail to be added - draft accounts being updated). The capital commitments disclosure note to be updated to remove £960,000 in respect of Hoe Valley School and Community Facilities. The Victoria Way Car Park Extension commitment to be increased from £100,000 to £635,000.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Fraud

Whilst the members and Finance Director have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

Group matters

Work with the component auditors is still ongoing.

We have had group instructions returned and we have reviewed the audit files of the component auditor and can confirm:

- There were no limitations on the audit where information was restricted
- There were no instances of fraud identified at a component level.

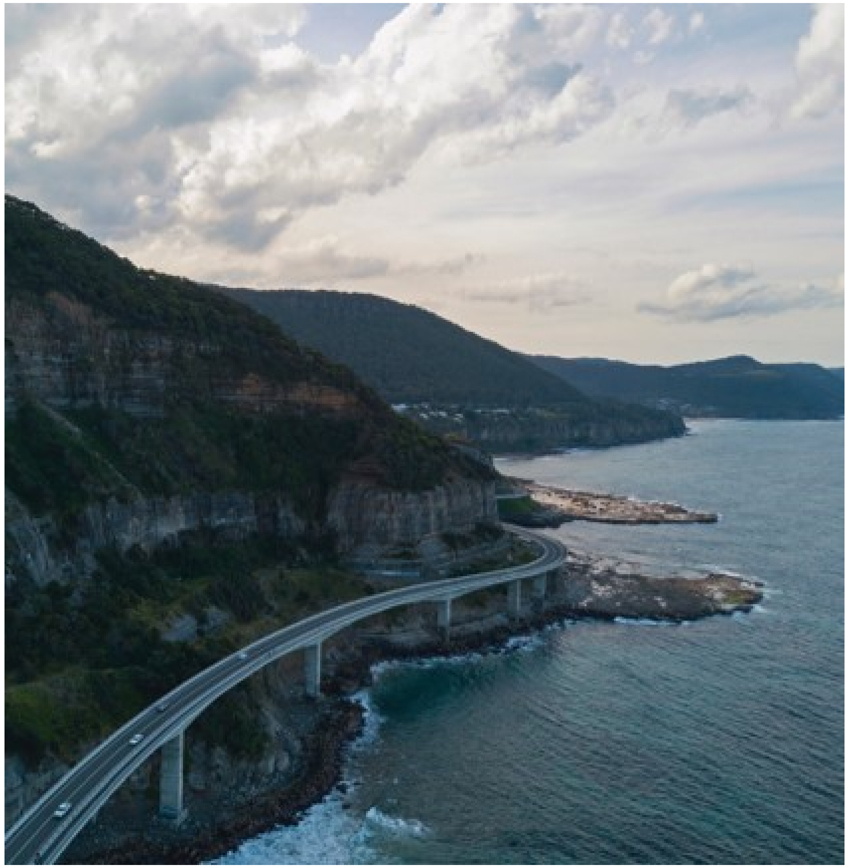
We are currently reviewing the valuation of investment property recognised in Thameswey Developments Ltd.

UNADJUSTED AND ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

Page 31



We are required to bring to your attention unadjusted differences and we request that you correct them.

We have identified one unadjusted misstatement to bring to your attention. Several annual parking permits were not correctly split across the financial year to recognise the timing of revenue. This has resulted in the income reflected in the CIES being overstated by £137k. The General Fund is also overstated by £137k.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services before unadjusted & adjusted audit differences	**47,557**					**51,909**				
1: Correct recognition of annual parking permits										
DR Income	137	137				137	137			
CR Current liability					137					137
Total unadjusted audit differences	**137**	**137**			**137**	**137**	137			137
Deficit on the provision of services after unadjusted audit differences	**47,694**					**52,046**				

The impact of the above unadjusted audit difference would be to reduce the General Fund by £137,000.

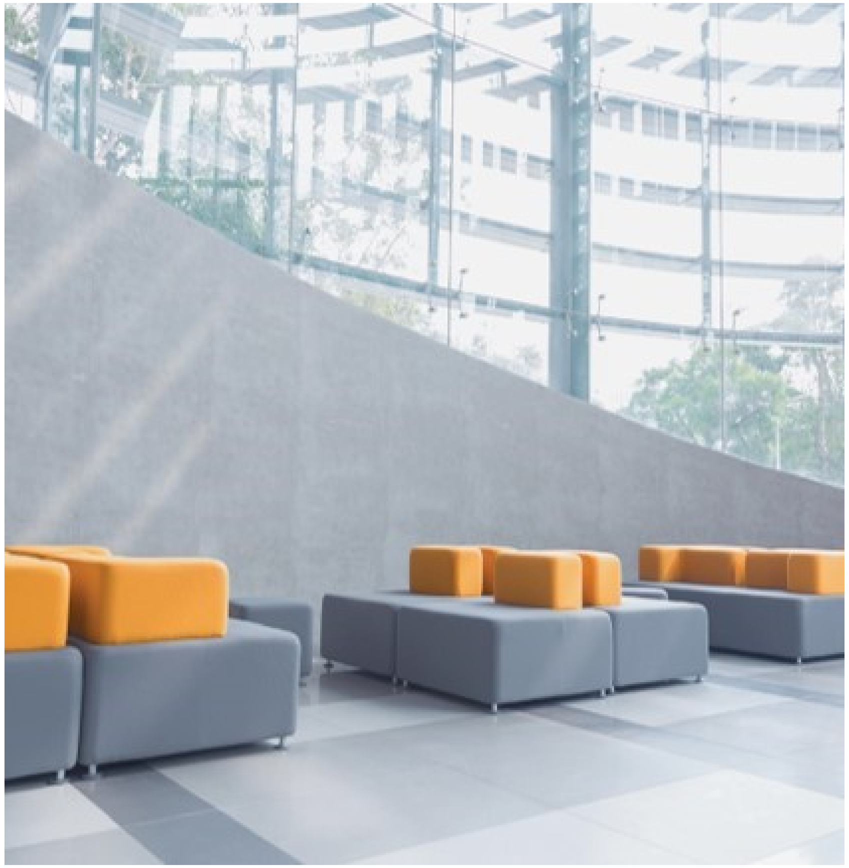
Contents

Page 32

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents



We have identified two misstatements that result in the net assets being overstated by £1.88 million. These misstatements also result in CIES outturn deficit on the provision of services being understated by £612,000. These two misstatements are due to the pension fund actuary re-estimating the year end net liability. Please see a more detailed description of this on page 24.

There were three adjustments that management brought to our attention that would need to be made to the draft accounts.

This include adjustments within CIES & EFA due to a misclassification of operational properties as investment properties (£1.3 million), car park revaluation adjustments and transfer of ‘rent adjustments’ from investment property acquisition to CIES (£1 million).

There is no change to the general fund from the adjustments made.

The revaluation adjustments to the car park draft figures is still being discussed. The adjustment will be posted to the final accounts.

ADJUSTED DIFFERENCES: DETAIL

Details for the current year – all adjustments were identified by management

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Adjusted differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services before unadjusted audit differences	**47,557**					**51,909**				
1: Adjustment for the misclassification of operational properties as investment properties										
Place - Environment and Regulatory Services - Expenditure	1,920	1,920				1,920	1,920			
Place - Environment and Regulatory Services - Income	(589)		589			(589)		589		
Expenses incurred on investment properties	(1,920)		1,920			(1,920)		1,920		
Rentals received on investment properties	589	589				589	589			
2: Transfer of 'rent adjustments' from investment property acquisition to CIES										
Investment Property				1,052					1,052	
Income in Advance					1,044					1,044
Sundry Deposits					8					8

Adjusted differences are continued on the following page..

Contents

ADJUSTED DIFFERENCES: DETAIL

Details for the current year – all adjustments were identified by management

Contents

	Council					Group				
	Income and expenditure			Balance sheet		Income and expenditure			Balance sheet	
Adjusted differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
3: Adjustment for the updated pension fund report										
Past service costs	612	612				612	612			
Pension Reserves				1,268					1,268	
Net pension liability					1,880					1,880
Total adjusted differences	**-**	**3,121**	**2,509**	**2,320**	**2,932**	**-**	**3,121**	**2,509**	**2,320**	**2,932**
Adjusted deficit on the provision of services	**48,169**					**52,521**				

The £612,000 audit difference relating to the additional pension liability is not a proper charge to the General Fund under statutory adjustment provisions, and will only be charged to the General Fund when the cash is paid to the pension scheme following the next triennial valuation and the amended rates and contributions schedule to be agreed with the actuary.

DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

We are required to bring to your attention other financial reporting matters that the Standards and Audit Committee is required to consider.

The following disclosure matters were noted:

- Analysis of debtors and creditors by nature of balance rather than by counter party
- Additional disclosure - Expected credit loss disclosure note - IFRS 9
- Revised treasury notes (further detail to be added - draft accounts being updated)
- Revised accounting policies (further detail to be added - draft accounts being updated)
- The capital commitments disclosure note will be updated in the final accounts to remove £960,000 in respect of Hoe Valley School and Community Facilities were not commitment existed as at year end. The Victoria Way Car Park Extension commitment will be increased from £100,000 to £635,000.

REPORTING ON OTHER INFORMATION

Contents

Page 37

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	Our review of the Narrative Report is still in progress.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Page 38

Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements. We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's 13 September 2019 deadline.

AUDIT RISKS OVERVIEW

Contents

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	None

SUSTAINABLE FINANCES

Contents

Page 40

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

- Significant risk
- Normal risk
- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties
- Significant control findings

Risk description

In October 2018, the Council updated the Medium Term Financial Strategy (MTFS) covering the period 2018 to 2022, outlining a strategy to mitigate against cost pressures over the period to 2022. Central government funding is set to decrease. As the Council has a significant investment programme in place the effect of these changes will require careful management.

The Council is expecting to increase council tax which will help protect against the reduction in central government funding. However these projections also assume the adoption of certain additional funding proposals which are not guaranteed.

According to the MTFS, based on current capital plans, an additional £3.5 million of ongoing savings or income is required by 31 March 2022, taking into account several expected pressures and assuming a surplus in 2019/20 and 2020/2021.

Work performed and in progress

We carried out the following planned audit procedures:

- Reviewing the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Monitoring the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and
- Review the strategies to close the budget gap after 2019/20.

Results and conclusion

An updated MTFS from March 2019 was provided. This shows that the action taken, including the new strategic and housing investment allocated as part of the 2019/20 budget setting achieves the required savings to 2022/23. A further £1m has been added to the savings requirement to due to a further year of forecast as well as continued funding reductions and Investment Programme costs.

The Council's 'Green Book' showing performance and budgetary information highlights a small overspend against budget of £48k in March 2019 however this excluded income from new properties and the benefit from the business rates pilot which were transferred to reserves. Our work on sustainable finances is still under progress.

SIGNIFICANT DEFICIENCIES

Page 41

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Standards and Audit Committee.

As the purpose of the audit is for us to express an opinion on the Group and the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Recognition of expenditure and income that straddle the year end	We identified that that annual parking permits were not being recognised in the correct financial reporting period when they straddled the financial year end. We also identified trivial errors in our expenditure sample where transactions were not being appropriately recognised. Whilst the errors that have been found are not considered to be large enough to make an adjustment for, in future reporting periods these errors might require an adjustment.	A review over the year end adjustment process across key revenue and expenditure streams should be undertaken to determine whether any further reviews, guidance or processes should be implemented for financial year ends to capture potential errors in cut off.	Agreed

OVERVIEW

Contents

Page 42

Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Conclusion on use of resources

Our conclusion on use of resources is under consideration.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council’s or Group’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

INDEPENDENCE

Contents

Page 43

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Group's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

Details of other threats and safeguards applied were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

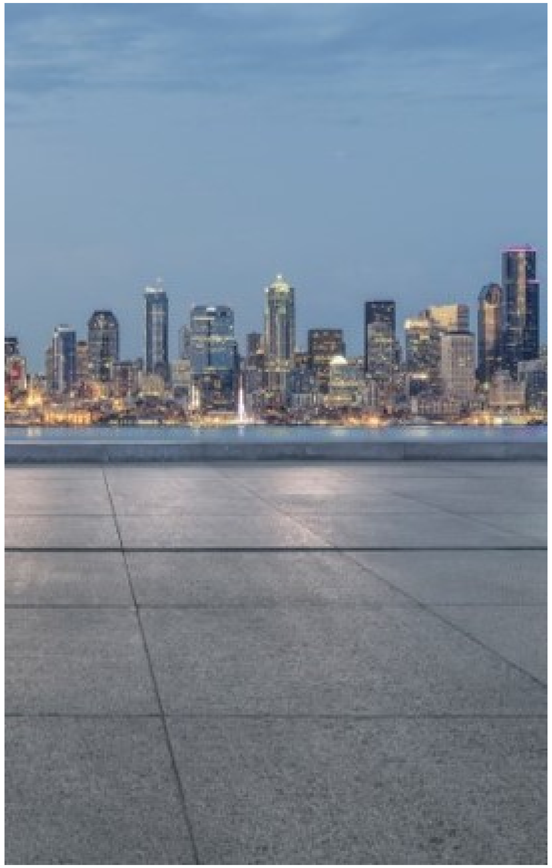
Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

Page 44

FEES

Fees summary		2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee				
• Code audit fee		**TBC**	**(1) 42,121**	**54,702**
Non-audit assurance services		**TBC**	**10,208**	**10,208**
Fees for reporting on government grants:				
• Housing benefits subsidy claim	Work not started		7,208	7,208
• Pooling of housing capital receipts return	Work not started		3,000	3,000
Total fees		**TBC**	**52,329**	**64,910**

(1) PSAA has set the 2018/19 fee scale at £42,121 on the basis that individual fees for all opted-in bodies have been reduced by 23 percent from the fees applicable scale fee for 2017/18 of £54,702. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.



APPENDICES CONTENTS

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Contents

Page 46

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

Page 47

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION AND REPORTS ISSUED

Contents

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Standards and Audit Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	11 April 2019	Standards and Audit Committee
Initial Audit Completion Report	18 July 2019	Standards and Audit Committee
Final Audit Completion Report	(31 July 2019)	Finance Director
Annual Audit Letter	(31 August)	Finance Director

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Standards and Audit Committee meeting at which this report is considered:

- All work in progress elements discussed in the report, including:
  - Work on PPE and Investment Property valuations
- Final consolidation adjustments and review of component auditor work
- Receipt of pension confirmation queries from pension fund auditor
- Manager and Partner review of all testing and clearance of review points.

The audit file and financial statements are still subject to review by the Engagement Lead.

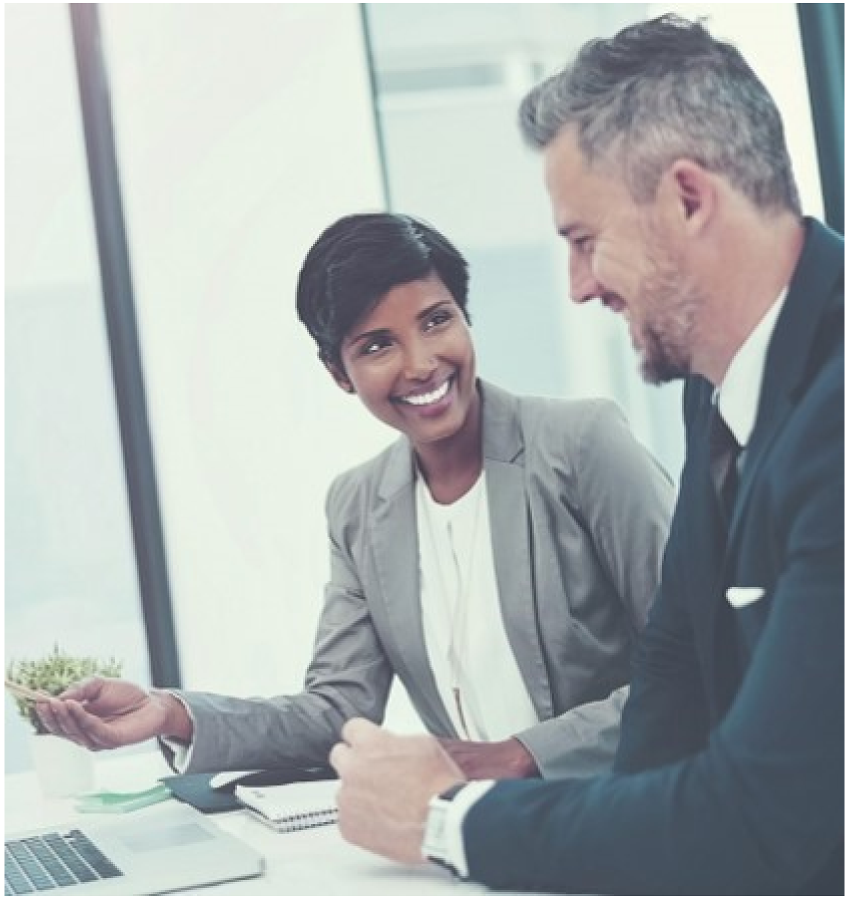
AUDIT REPORT

To follow

Contents

AUDIT QUALITY

Contents



BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

Letter of representation

Page 52

[Client name and Letter headed paper]

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sirs

Financial statements of Woking Borough Council for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Group and the Council' financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Finance Director has fulfilled her responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note xx to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Contents

Page 53

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note xx to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

Accounting estimates

To be inserted

Contents

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member has taken all the steps that they ought to have taken as a member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Leigh Clarke

Finance Director

[date]

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7893 2616
e: leigh.Lloyd-thomas@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

www.bdo.co.uk