STANDARDS & AUDIT COMMITTEE – 5 MARCH 2020

EXTERNAL AUDIT PLAN

Executive Summary

One of the Committee's roles and functions is to consider the Council's External Auditor's Audit Plan. Accordingly, attached as Appendix 1 is the BDO Audit Plan for 2019-20.

Recommendations

The Committee is requested to:

RESOLVE That the External Audit Plan for 2019-20 be agreed.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers: None.

Reporting Person: Leigh Clarke, Finance Director
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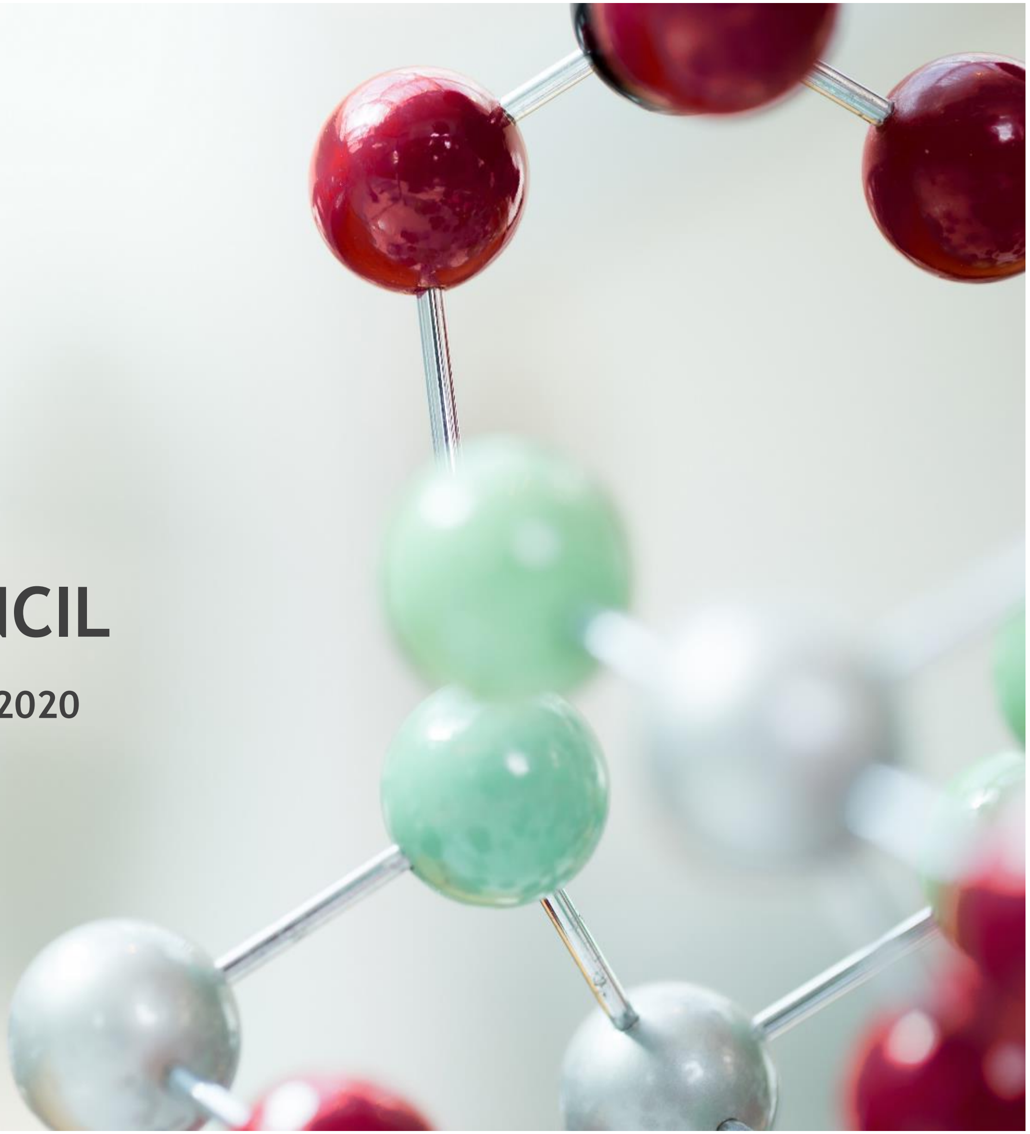
Date Published: 5 March 2020

Report to the Standards and Audit Committee

WOKING BOROUGH COUNCIL

Audit Planning Report: year ending 31 March 2020



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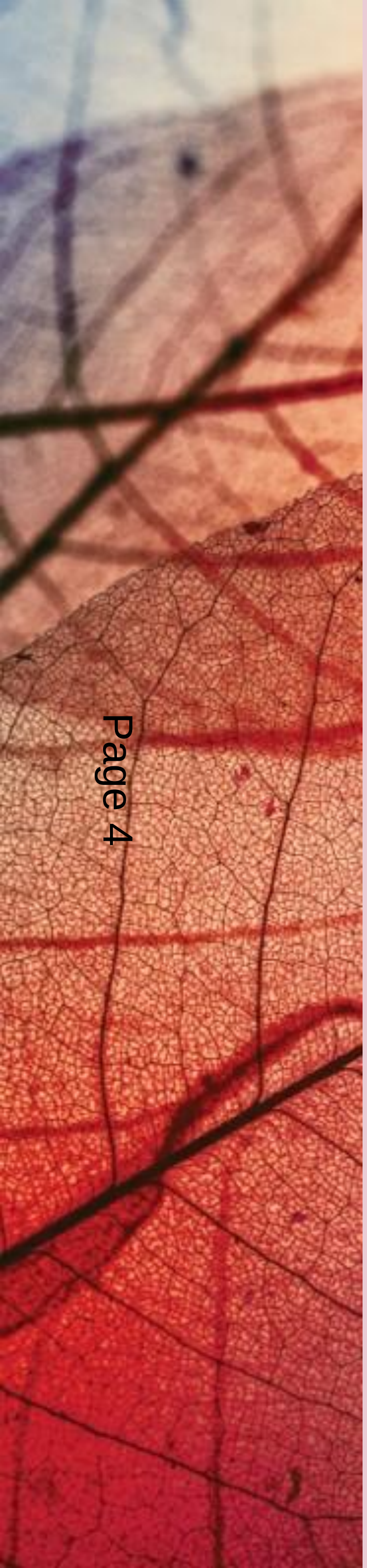

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WELCOME

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We have pleasure in presenting our Audit Planning Report to the Standards and Audit Committee of Woking Borough Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2020 in respect of our audit of the financial statements and consolidated entities (together the 'Group') and use of resources; comprising materiality, key audit risks and the planned approach to these, together with the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Standards and Audit Committee meeting on 5 March 2020 and to receiving your input on the scope and approach.

Leigh Lloyd-Thomas

5 March 2020

Leigh Lloyd-Thomas

Engagement Partner

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SCOPE OF THE AUDIT

Executive summary

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This summary provides an overview of the key audit matters that we believe are important to the Standards and Audit Committee in reviewing the planned audit strategy for the Council and Group for the year ending 31 March 2020.

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

Audit scope

The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

MATERIALITY

Executive summary

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Financial statements materiality

The Group has custody of significant public assets through its ownership of housing stock, other land and buildings and investment properties used to generate income to support the Council's services. Overall financial statements planning materiality has been determined by reference to a benchmark using gross assets. Materiality from the Group has been set at 1% of this benchmark.

The clearly trivial level for reporting misstatements is set at 2% of materiality.

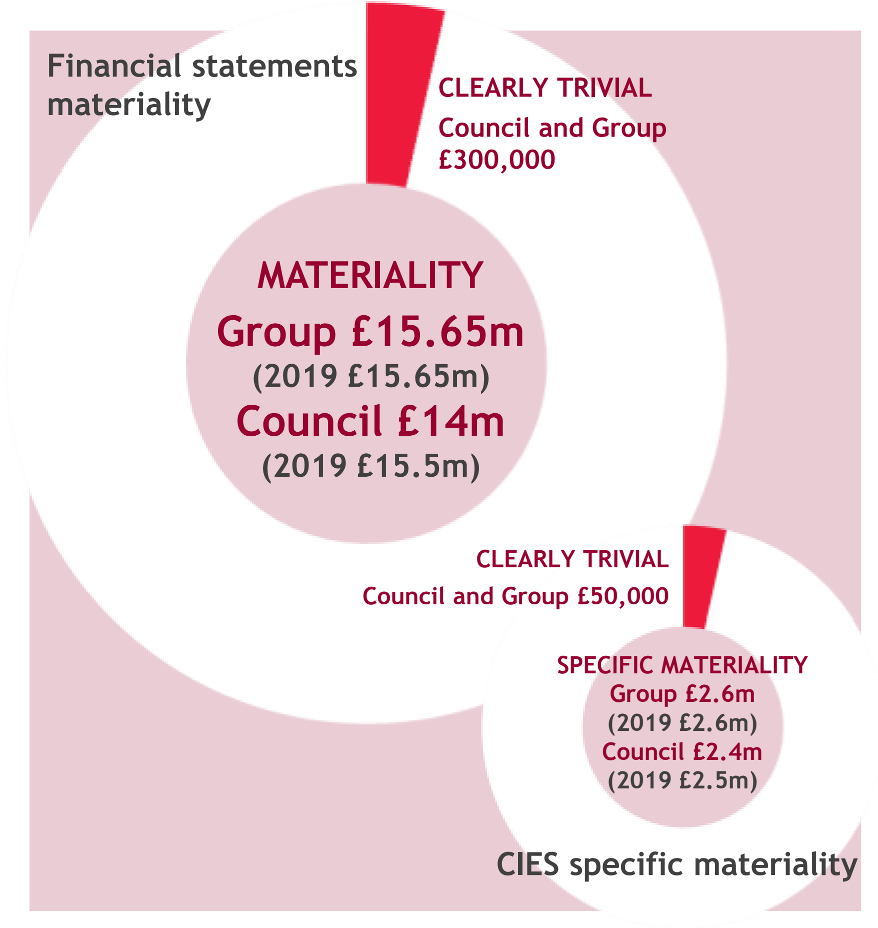
The subsidiary entities are becoming an increasingly larger part of the Group and have been allocated a larger proportion of the overall materiality allocation across the components in the Group this year. As a result, the allocation of the share of Group materiality to the Council (as parent component in the Group) has correspondingly reduced this year. This is a requirement of auditing standards to reflect the increased risk of misstatements in the other Group components impacting on the Group consolidated financial statements.

Specific materiality

We also consider that a misstatement at a lower level through income and expenditure would be material where this may impact on available resources to support the functions of the Council. Therefore, we will apply a lower level of specific materiality to income and expenditure transactions that impact on revenue resources. Materiality for the Group has been set at 2% of a benchmark using gross income (excluding valuation gains on investment properties and impairment reversals for dwellings) in the Comprehensive Income and Expenditure Statement. The clearly trivial threshold of £50,000 on the CIES has also been calculated based on 2% of specific materiality.

Although materiality is the judgement of the audit partner, the Standards and Audit Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.

Materiality will be revisited when the draft financial statements are received for audit.



AUDIT STRATEGY

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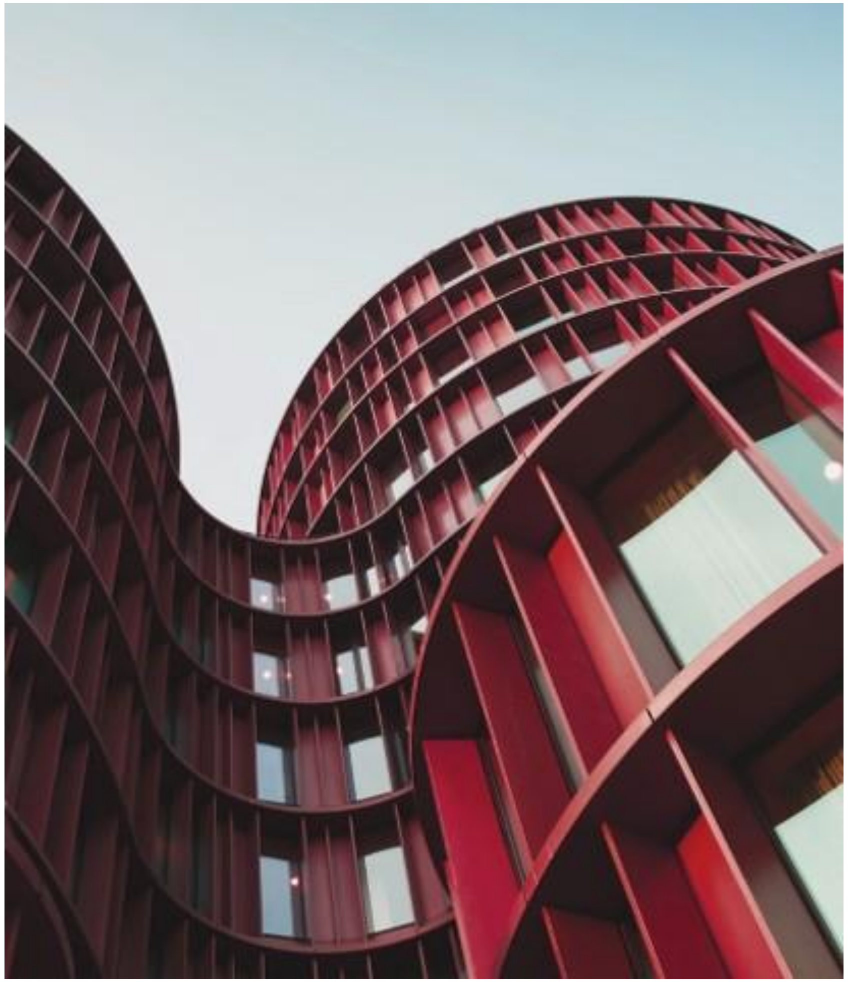

Our audit strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have discussed the changes to the Council, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Group's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

AUDIT RISKS OVERVIEW

Executive summary

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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Revenue (and expenditure) recognition	Significant	Yes	Substantive	Medium
Property, plant & equipment and Investment property valuations	Significant	No	Substantive	High
Pension liability valuation	Significant	No	Substantive	High
Allowance for non-collection of receivables	Normal	No	Substantive	Medium
Leases and right of use assets disclosures	Normal	No	Substantive	Low
Group consolidation	Normal	No	Substantive	Medium
Sustainable finances (use of resources)	Significant	No	Detailed review	Medium

INDEPENDENCE AND FEES

Executive summary

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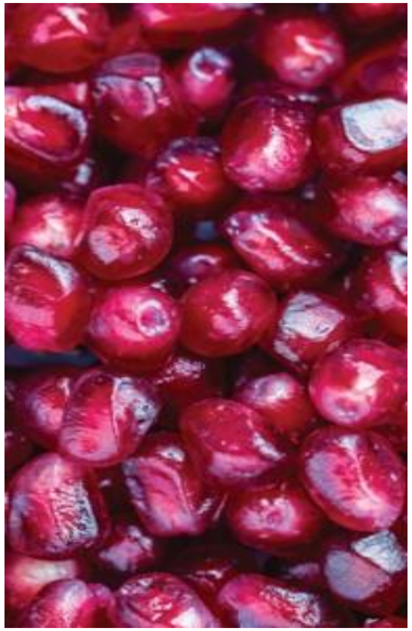

Independence

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

Fees

	2019/20 £	2018/19 £
PSAA scale audit fees	£42,121	£42,121
Estimated additional audit fees	(2) TBC	(1) TBC
Total audit fees	**TBC**	**TBC**
Non audit fees		
- Housing Benefits Grant Claim	£7,208	£7,208
- Pooling Housing Capital Receipts	£3,000	£3,000
Non audit services fees	**£10,208**	**£10,208**
Total fees	**TBC**	**TBC**

Fee variances

(1) The audit for 2018/19 is still in progress and we have incurred significantly higher audit costs than budgeted for under the PSAA scale fees. The scale fees have not taken account of the increase in the scope of the audit following the significant levels of capital developments, acquisitions and complexity of the group structure in recent years. These costs will need to be agreed with the Finance Director and Standards and Audit Committee prior to seeking approval from PSAA to amend these costs.

(2) We will discuss with you the impact of audit resources required and appropriate baseline fees for 2019/20 once we have completed the audit for 2018/19.

Amendments to the proposed fees

Where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Council. Where this requires a variation to the scale fee set by PSAA we will seek approval from Public Sector Audit Appointments Limited (PSAA) and prepare a report outlining the reasons why the fee needs to change.

OVERVIEW

Key components of our audit objectives and strategy for the Group are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to 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.
Use of Resources	We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
WGA	We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements.
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Standards and Audit Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Standards and Audit Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

Page 12

As Group auditor we are required to design an audit strategy to ensure we have obtained the required audit assurance for each component for the purposes of our Group audit opinion ISA (UK) 600, including the Council as parent entity and its subsidiaries. A high-level overview of how we have designed the Group audit strategy is summarised below to ensure you have clear oversight of the scope of the work we intend to perform on each entity.

We have selected those components of the group that we deem significant based on the percentage of overall Group gross assets or revenues. For these significant components we will issue group instructions to the component auditor and will discuss intended audit approach, methodology and results of testing with them. We will also review their files and testing undertaken that support the amounts included in the Group financial statements.

For reference we also list all other group entities on the following pages for those deemed not to be significant components.

Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
Woking Borough Council	Local authority services	Significant component	Size and Risk Income £130m Assets £1,556m (31/3/19 accounts)	Risk 1 – 9	£14.0m	Statutory audit performed by BDO LLP
Thameswey Developments Ltd	Property development	Significant component	Size and Risk Income £42m Assets £92m (31/12/18 accounts)	Risks 1 - 3	£2.0m	Statutory audit performed by Hamlyns LLP
Thameswey Housing Ltd	Provision of affordable housing	Significant component	Size and Risk Income £6m Assets £246m (31/12/18 accounts)	Risks 1 - 3	£5.0m	Statutory audit performed by Hamlyns LLP

We have set materiality levels for each significant component by reference to the Group materiality and to address the risk of misstatements in each component impacting on the Group financial statements. Each component auditor will apply a materiality level for each component financial statements that must not exceed our component materiality.

AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS 2

The remaining Group entities are listed below and comprise subsidiaries where gross assets are less than 5% of the overall Group or the investment is recognised as an associate rather than subsidiaries. For non-significant components we will perform high-level analytical reviews on key financial figures but we will not need to issue instructions to the component auditors.

Entity	Nature of Operations	Audit classification	Reason for classification
Thameswey Ltd	Holding company for investments in Thameswey subsidiaries Income £0.1m / Assets £32m	Not significant component	Size
Thameswey Energy Ltd	Production and supply of electricity, heat and water Income £4.4m / Assets £16m	Not significant component	Size
Thameswey Central Milton Keynes Ltd	Production and supply of electricity, heat and water Income £3.8m / Assets £20m	Not significant component	Size
Thameswey Guest House Ltd	Provision of guest housing in Woking Income £0.4m / Assets £1.9m	Not significant component	Size
Thameswey Solar Ltd	Solar panel installation Income £0.2m / Assets £2.8m	Not significant component	Size
Thameswey Maintenance Services Ltd	Maintenance of energy systems Income £2.2m / Assets £0.9m	Not significant component	Size
Thameswey Sustainable Communities Ltd	Promotion of renewable energy activities Income £1.5m / Assets £0.6m	Not significant component	Size
Energy Centre for Sustainable Communities Ltd	Dormant company Income £NIL / Assets £NIL	Not significant component	Size
Rutland Woking Limited	Property development Income £NIL / Assets £2.2m	Not significant component	Size

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AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS 3

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Entity	Nature of Operations	Audit classification	Reason for classification
Rutland Woking (Carthouse Lane) Ltd	Property development Income £NIL / Assets £0.3m	Not significant component	Size
Rutland Woking (Residential) Limited	Property development Income £NIL / Assets £0.2m	Not significant component	Size
Woking Necropolis and Mausoleum Ltd	Holding Co of Brookwood Park Ltd Income £1.1m / Assets £5.7m	Not significant component	Size
Brookwood Park Ltd	Management of Brookwood Cemetery Income £1.1m / Assets £4.5m	Not significant component	Size
Brookwood Cemetery Ltd	Holding of land for cemetery use Income £Nil / Assets £0.8m	Not significant component	Size
Kingfield Community Sports Centre Ltd	Property (including Woking FC stadium) Income Not reported / Assets £2.3m	Not significant component	Size
Victoria Square Woking Ltd	Redevelopment project Income £Nil / Assets £171m	Not significant associate component	Associate equity accounting

The Council's investment in the company is £14,000. The company has reported trading losses of £11.5m to 31 December 2018 during the development phase of the project. IAS 28 requires that the Group should recognise its share of the losses against its carrying value of the investment. However, as the Council has no legal or constructive obligation to fund the losses it does not need to recognise losses greater than it's carrying value of the investment. As this is not material, no adjustments are made in the Group financial statements.

The Council has provided loan funding to the company and the recoverable amount of the loan is separately tested for credit impairment losses.

BDO TEAM
Team responsibilities

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Engagement Lead

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinions are given.

In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I will ensure that we have undertaken sufficient work to assess the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the NAO.

I am responsible for the overall quality of the engagement and am supported by the rest of the team.

Matthew Vosper
Audit Manager

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I will lead on the audit of the Group and Council.

I work closely with Leigh to develop and execute the audit strategy. I will be a key point of contact on a day to day basis for the Council and will ensure that timelines are carefully managed to ensure that agreed deadlines are met and matters to be communicated to management and the Standards and Audit Committee are highlighted on a timely basis.

OVERVIEW

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We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements or impact on our use of resources opinion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Description of risk	Significant / Normal risk	Overview of risk
1. Management override of controls	Group	ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue (and expenditure) recognition	Group	There is risk in respect of the existence (recognition) of revenue and grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). There is also a risk of manipulation of expenditure recognition by inappropriately deferring expenditure by including expenditure in the following year.
3. Property, plant & equipment and Investment property valuations	Group	There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Pension liability valuation	Council	There is a risk the valuation is not based on appropriate membership data following the update at the 2019 triennial valuation, or where there are significant changes to membership data since the triennial data submission, or uses inappropriate assumptions to value the liability.
5. Allowance for non-collection of receivables	Council	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 Council has provided significant amounts of loan funding to subsidiaries and associates that require annual review for potential credit losses for non-recovery.

OVERVIEW 2

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Description of risk	Significant / Normal risk	Overview of risk
6. Leases and right of use asset disclosures	Council	There is a risk that disclosures for the impact of the implementation of the new leasing and right of use assets (IFRS 16) in 2020/21 are not complete and accurate if the Council has not undertaken the necessary preparatory work.
7. Group consolidation	Council	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. The subsidiary entities also produce audited accounts to 31 December and there is a risk that material transactions for the remaining 3 months up to the Group year end at 31 March may not be reported or valuations may be materially different. The subsidiary entities prepare financial statements under UK GAAP (FRS 102) rather than IFRSs and transactions and balances may require adjustment in the Group financial statements where accounting policies differ under IFRS based reporting standards. For example, the subsidiary entities do not have to prepare IFRS 16 leases disclosures, nor account for right of use assets from 2021/21, and the Council will have to capture the information required from the subsidiaries to account for these within the Group financial statements.
8. Sustainable finances (use of resources)	Council	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.

MANAGEMENT OVERRIDE OF CONTROLS

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Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Planned audit approach

Our audit procedures for the Council will include the following:

- Review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

For the significant component entities, we will review the work undertaken by the component auditor to address management override risks.

REVENUE (AND EXPENDITURE) RECOGNITION

CONTENTS

Auditing standards presume that income recognition presents a fraud risk.

For public sector bodies the risk of fraud related to expenditure is also relevant.

Significant risk	■
Normal risk	
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of investment property income and non-ringfenced grant income.

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.

Planned audit approach

Our audit procedures for the Council will include the following:

- Test a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met;
- Test a sample of investment property income to documentation including lease agreements, contracts and rent reviews; and
- Test a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

For the significant component entities, we will review the work undertaken by the component auditor to address revenue recognition risks.

PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATIONS

CONTENTS

The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

Local authorities are required to ensure that the carrying value of land, buildings and dwellings 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.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

Planned audit approach

Our audit procedures for the Council will include the following:

- Review 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;
- Confirm that the basis of valuation for assets valued in year is appropriate based on their usage;
- Review accuracy and completeness of asset information provided to the valuer such as rental agreements and land plot / building sizes; and
- Review assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual.

For the significant component entities with material non-current assets, we will review the work undertaken by the component auditor to address risks around accuracy and completeness of information used to support the valuations and the corroborating evidence reviewed to support the assumptions used.

The housing assets held by Thameswey Housing Limited were last valued in 2015 and the directors undertake an assessment each year (31 December) to assess whether there has been a material change to the carrying value of the assets. No valuation adjustments have been made since 2015 as the directors have concluded that movements in values since that date are not material.

PENSION LIABILITY VALUATION

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant risk	■
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data submitted in the 2019 triennial valuation by the administrating authority (Surrey County Council) and 2019/20 cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

Actuaries have been asked to include the estimated liability for the McCloud judgement in the accounting valuation based on assumptions in the revised pension liability calculations used in the previous year. The process for agreeing and legislating for the changes required to scheme benefits is likely to take some time.

Planned audit approach

Our audit procedures will include the following:

- Assess the competence of the management expert (actuary);
- Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Review the controls for providing accurate membership data to the actuary for the 2019 triennial valuation (used in the roll forward membership data for the 31 March 2020 accounting valuation of the liability) and cash flows for 2019/20 through requesting assurances from the pension fund auditor; and
- Checking that any significant changes in membership data since the triennial submission have been communicated to the actuary.

ALLOWANCES FOR NON COLLECTION OF RECEIVABLES

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Page 22

There is a risk over the valuation of the allowance for the non-collection of arrears, debt and loans advanced to subsidiaries and associate entities.

Significant risk	
Normal risk	■
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing rents, commercial rents and parking penalty charge notices. The Council assesses each type of receivable separately in determining how much to allow for non-collection.

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 and NDR that CIPFA has stated will continue to be accounted for on an incurred loss model.

The Council's loans to its subsidiaries and associates fall within the scope of IFRS 9 to calculate an expected credit loss, and the Council must undertake a review each year of the potential for non-recovery of these loans based on the trading performance and business plans for each entity.

Planned audit approach

Our audit procedures will include the following:

- For receivables that are excluded from IFRS 9, review the provision model for receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears; and
- For all other receivables and intra-group loans to subsidiaries, review the provision model to assess whether it includes appropriate assumptions for expected credit losses.

LEASES AND RIGHT OF USE ASSETS DISCLOSURE

CONTENTS

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There is a risk that disclosures for the impact of the new leasing and right of use assets are not complete and accurate if the Council has not undertaken the necessary preparatory work.

Significant risk	
Normal risk	■
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

There is a risk that disclosures required in the 2019/20 financial statements regarding the impact of the implementation of the new leasing and right of use assets (IFRS 16) from 2020/21 are not complete and accurate if the Council has not undertaken the necessary preparatory work.

This includes obtaining a record of all leases or contracts that may contain a lease, and the terms of those lease, to calculate the right of use asset and liability.

Planned audit approach

Our audit procedures will include the following:

- Review the preparatory work undertaken by the Council;
- Review the disclosures in the accounting standards not yet adopted note;
- Testing the completeness of the leases schedule to check that all relevant leases are identified; and
- As part of our testing of lease disclosures, we will test a sample to agree back to supporting documentation to agree the terms of the lease to the leases scheduled maintained by the Council.

GROUP CONSOLIDATION

CONTENTS

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	
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	
Risk highlighted by Council	

Risk detail

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.

The subsidiary entities also produce audited accounts to 31 December and there is a risk that material transactions for the remaining 3 months up to the Group year end at 31 March may not be reported or valuations may be materially different.

The subsidiary entities prepare financial statements under UK GAAP (FRS 102) rather than IFRSs and transactions and balances may require adjustment in the Group financial statements where accounting policies differ under IFRS based reporting standards. For example, the subsidiary entities do not have to prepare IFRS 16 leases disclosures, nor account for right of use assets from 2020/21, and the Council will have to capture the information required from the subsidiaries to account for these within the Group financial statements.

Planned audit approach

Our audit procedures will include the following:

- Agree the component entities' group consolidation returns to the audited accounts;
- Agree any subsequent adjustments reflected in the returns for material transactions and valuation updated to 31 March 2020 to underlying transactions and valuation certificates;
- Agree adjustments required for any material accounting policy differences from UK GAAP and IFRS;
- Review the work undertaken to identify right of use assets in the subsidiary entities for disclosure of new accounting policies adopted not yet implemented; and
- Agree the consolidation process and intra-group elimination of transactions and balances.

SUSTAINABLE FINANCES (USE OF RESOURCES)

CONTENTS

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The Council will need to deliver it savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.

Significant risk	■
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Detailed review	■
Risk highlighted by Council	

Risk detail

The Council is currently preparing an updated Medium Term Financial Strategy (previous version approved by Council in April 2018). Regular comparisons to service budgets are provided and published on the Council's website as the 'Green Book'. The latest edition of the Green Book covers financial information to January 2020. The current forecasted position as outlined in the Green Book shows an overspend of £500,000 is expected for 2019/20.

Facing reduced income from central government, the Council has embarked on a significant investment and regeneration programme to help maintain service levels and off-set the lost income. Significant loans have been taken from the Public Works Loan Board and invested into regeneration projects in the Borough as well as used to acquire investment properties.

The ongoing financial environment for the Council remains challenging and there is a risk that savings are not achieved. These risks may have a significant impact on the financial sustainability of the Council in the medium term.

Planned audit approach

Our audit procedures will include the following:

- Review 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;
- Monitor the delivery of the budgeted savings in 2019/20 and the plans to reduce services costs and increase commercial income from 2020/21;
- Review the impact of the significant capital programme on budgets, including the impact on revenue resources, and risk management plans in the event of delays and slippage on revenue generating projects against borrowing and MRP costs; and
- Review the strategies to close the budget gap in the coming years.

GOING CONCERN

CONTENTS

Council's responsibilities

It is the Finance Director's responsibility to make an assessment of the Council's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

Audit responsibilities

Our responsibilities in respect of going concern are:

- To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and
- (b) To report in accordance with ISA (UK) 570.

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Council's financial performance including forecasting and budgeting processes and the Council's risk assessment process. We will evaluate:

a) The method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other.

b) The plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances.

c) The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

OTHER MATTERS REQUIRING FURTHER DISCUSSION

CONTENTS

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Fraud

Whilst the members of the Council 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 approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have been made aware of a small number of low value actual, alleged or suspected incidences of fraud reported by the Council. We request confirmation from the Standards and Audit Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management believe that there is low risk of material misstatement arising from fraud and that controls in operation would prevent or detect material fraud.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We will review the reports issued by the Council's internal audit function although we do not plan place reliance on their work in respect of their assessment of control processes.

Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your organisation includes VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

Related parties

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.

Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

IT GENERAL CONTROLS

IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting.

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 auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads 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 ending 31 March 2020.

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 and are independent of the Group.

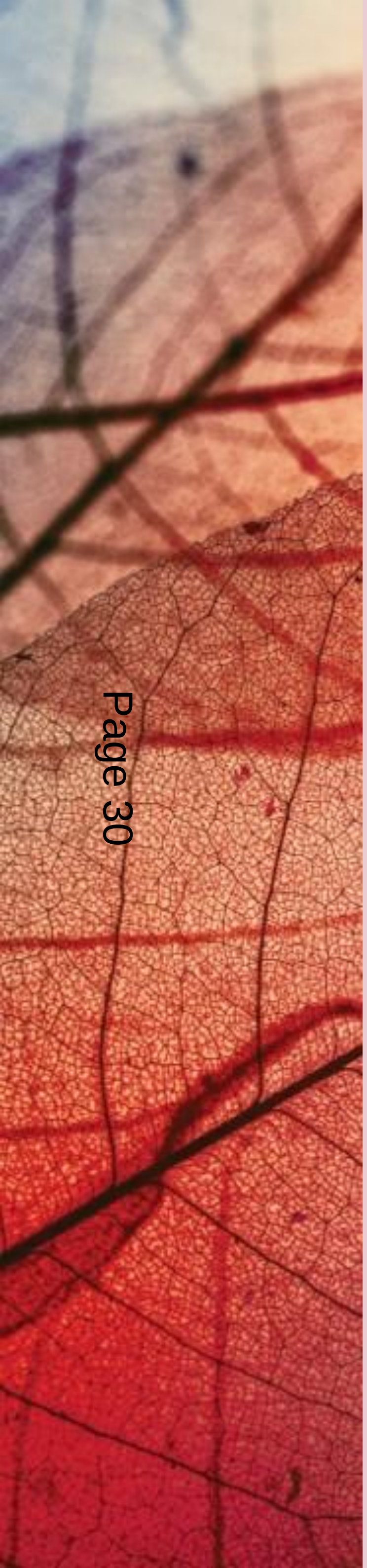
We also confirm that we have obtained confirmation that external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

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

Non-audit services

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 fees table on page 8.

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



APPENDICES CONTENTS

COUNCIL'S RESPONSIBILITIES

The Council's responsibilities and reporting

CONTENTS

Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

Use of resources

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a Governance Statement.

In preparing its Governance Statement, the Council will tailor 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 their arrangements for securing value for money from their use of resources.

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OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting - financial reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your 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 additional narrative reports. 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.

Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the National Audit Office and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Council and the Standards and 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.

COMMUNICATION WITH YOU

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Those charged with governance

References in this report to those charged with governance ('TCWG') 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.

In communicating with the Standards and Audit Committee, representing TCWG of the parent and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

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 will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Audit Planning Report

The Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the report.

TEAM MEMBER ROTATION

CONTENTS

This table indicates the latest rotation periods normally permitted under the independence rules of the FRC's Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
Leigh Lloyd-Thomas Partner	2	2022/23
Matthew Vosper Audit Manager	2	2028/29

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS

Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern; and
- Instances when greater precision is required (e.g. Remuneration and Staff Report and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Group, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests;
- Calculate sample sizes; and
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

MATERIALITY: DEFINITION AND APPLICATION

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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Standards and Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

AQR RESULTS 2018/19

BDO performance

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Overview

The FRC released their Audit Quality Review (AQR) results for the 7 largest accountancy firms in July 2019 for the review period 2018/19. A copy of all of the reports can be found on the FRC Website. We are very proud of our results in this review period where, for the second year running, 7 of the 8 files reviewed were assessed as either good or requiring only limited improvements.

Firm's results

The graphs demonstrates our performance in relation to the other 6 largest firms and our continuous improvements and maintenance of that improvement over the last 6 review periods .

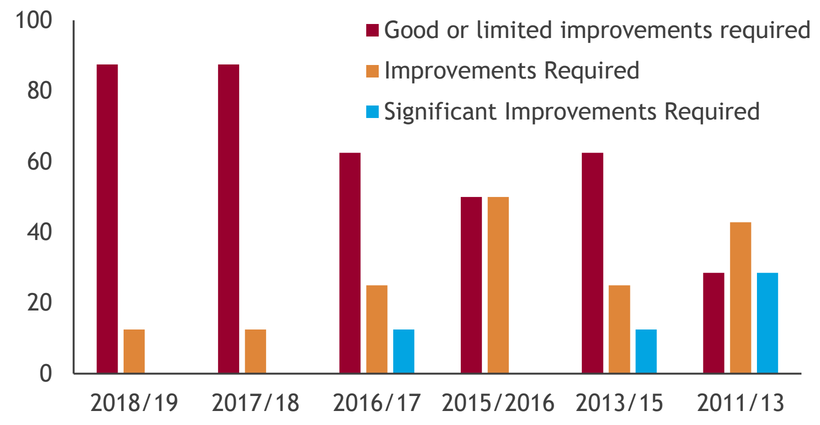
We include details of our model 'The Cycle of Continuous Improvement' on the next slide. We acknowledge that the firm has performed well on the quality of the audits over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively with issues as they arise. This also highlights how our program of root cause analysis plays an important role in high audit quality.

We would encourage you to read our report which includes:

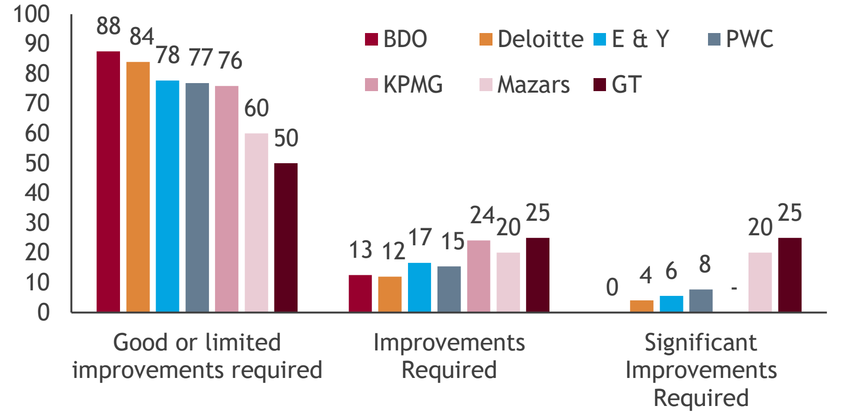
- Details of the root cause analysis we have been undertaking to address issues raised;
- The actions we have/are undertaking to address the issues raised by the AQR; and
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

More details are included in our Transparency Report which is available on our www.bdo.co.uk.

BDO AQR Results - year on year



Big 7 Firms - Results 2019



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AQR RESULTS 2018/19

The Cycle of Continuous Improvement

Live files require:
- Review of audit quality by senior team members

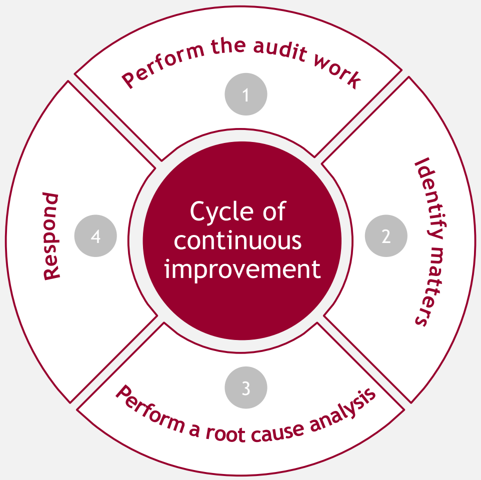
and may require:
- Hot review of financial statements
- Technical support for audit work
- Appointment of engagement quality control reviewer

Completed files may be subject to:
- Internal Audit Quality Assurance Review
- External review from AQR or QAD

Considerations of how to address:
- Behavioural matters
- Operational changes required
- Cultural matters to be escalated

Responses may include:
- Updating operational practices
- Embedding matter into performance review and development process for staff
- Staff coaching
- Amending audit approach firm-wide or for specific assignments
- Targeted messaging to relevant audiences (e.g. grades, ranks or sector specialists)
- Updated guidance material

Responses inform training plans



Nature of matters may be:
- Client/assignment specific issues
- Common findings/repeating issues that have need to be tracked and/or escalated
- Firm-wide matters
- “Best practice” examples

May be at Individual assignment or ‘whole-firm’ level:
- Identification and assessment of root cause
- Productive process to learn from matters and improve quality
- “Best practice” examples treated in the same way as “issues”
- Consideration of appropriate responses to issues identified, proposed and escalated as appropriate

FOR MORE INFORMATION:

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