

STANDARDS & AUDIT COMMITTEE – 16 SEPTEMBER 2021

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 Outline Audit Plan for 2020-21.

Recommendations

The Committee is requested to:

RESOLVE That the External Audit Plan for 2020-21 be agreed.

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

Background Papers: None.

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Report to the Standards & Audit Committee

WOKING BOROUGH COUNCIL

Audit Planning Report: year ending 31 March 2021



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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.

Our audit of the Council's 2019-20 financial statements is currently in progress. Therefore this is an outline strategy, for the year ending 31 March 2021 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these; together with timetable and the BDO team. We will issue an updated report to the Standards and Audit Committee following the completion of our 2019/20 audit, once we have updated the our risk assessment to reflect the findings from that audit.

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.

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 look forward to discussing this plan with you at the Standards and Audit Committee meeting on 16 September 2021 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

S. Bladen

Steve Bladen

15 September 2021

This report has been prepared solely for the use of the Standards and Audit Committee and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.



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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 the Group for the year ending 31 March 2021.

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 and consolidated entities (together the 'Group'); 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. The Code of Audit Practice was updated with effect from 1 April 2020 and as a consequence the scope of the use of resources work has changed for the year ending 31 March 2021. More information on this change is included on page 21.

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.

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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.

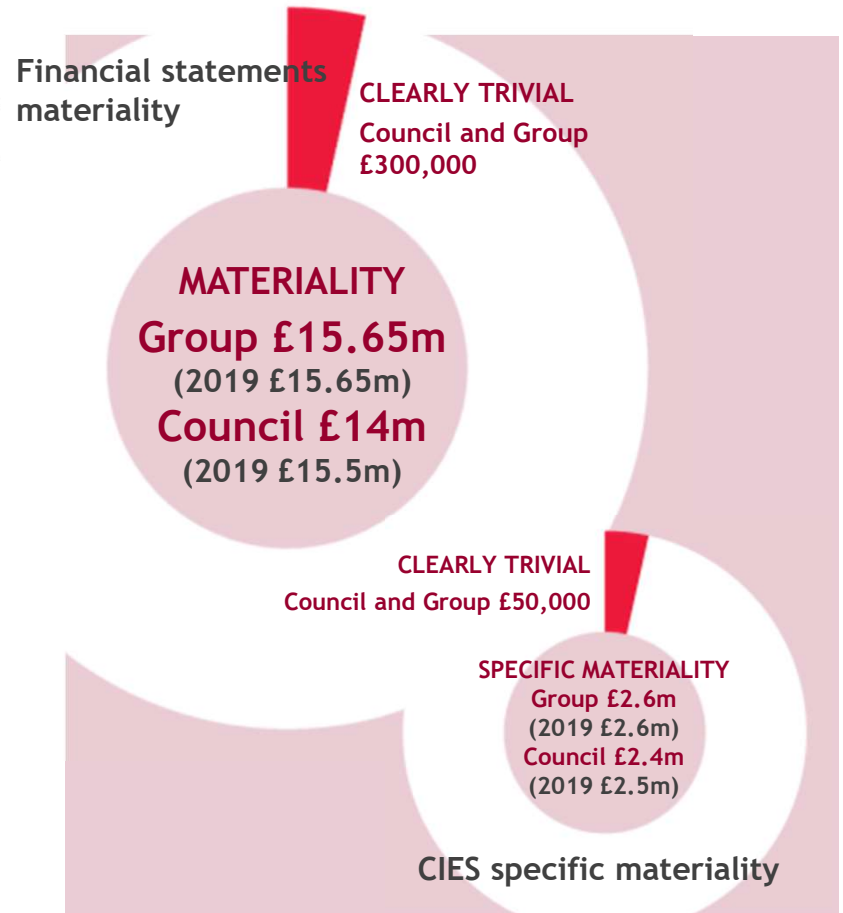
The subsidiary entities are becoming an increasingly larger part of the Group and have been allocated a larger proportion of the overall materiality allocation across the components in the Group this year. As a result, the allocation of the share of Group materiality to the Council (as parent component 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 engagement lead, the Standards and Audit Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.

At the time of preparing this report, the Council has not prepared group financial statements for the 2019/20 or 2020/21. Therefore our materiality calculation has been based on the Council’s 2018/19 financial statements. We will update our calculation of materiality once the 2020/21 group financial statements are available. We will report this to a future meeting of the Standards and Audit Committee



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.

There has been no significant change to audit risks identified or their classification as compared to the prior year.

All other material areas will be subject to a substantive approach.

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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
Valuation of non-current assets	Significant	No	Substantive	High
Valuation of pension liability	Significant	No	Substantive	High
Allowance for non-collection of receivables	Normal	No	Substantive	High
Recoverability of loans to subsidiaries and associate	Significant	No	Substantive	High
Minimum Revenue Provision	Significant	No	Substantive	High
Group consolidation	Significant	No	Substantive	Low

Use of resources - to be confirmed (see page 22)



INDEPENDENCE AND FEES

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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

Fees

	2020/21	2019/20
Code audit fee	142,121	142,121
Additional audit fee: Code	237,879	237,879
Additional audit fee: Use of Resources	³ TBC	³ TBC
Total audit fees	TBC	TBC
Fees for non-audit services - audit related:		
• Certification of housing benefit subsidy claim	418,045	418,045
• Certification of pooled housing capital receipts return	3,000	2,800
Total non-audit services fees	21,045	20,845
Total fees	TBC	TBC

¹Code audit fee

The Code audit fee is the PSAA published scale fee.

²Additional audit fee: Code

This represents an estimate of the additional resource time and costs required to test the transactions and balances associated with the Council's significant investment in commercial property in recent years, and the changes in audit scope linked to current audit requirements for property assets and pensions liabilities. Following the conclusion of our 2019/20 audit, we will discuss these costs with management, before submitting a proposal to increase the fee to PSAA Limited.

³Additional audit fee: Use of Resource

The audit fee is based on audit scope under the Code of Audit Practice. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. We will propose a fee variation in respect of this once additional procedures have been fully scoped.

⁴Certification of housing benefit subsidy claim

The planned housing benefit subsidy claim fee is estimated based on additional work required in 2020/21 in response to issues identified in our work on the 2018/19 claim. The 2019/20 work has not yet completed so the actual fee and any additional work in respect of 2019/20 are not known at the date of this report.

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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 2020/21 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.
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.
Audit Completion Report to the Standards and Audit	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.
Use of resources and Auditor's Annual Report	We will provide an annual commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council. The Auditor's Annual Report is required to be published by the Council.

AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

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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	Risk 1 - 9	To be confirmed	Statutory audit performed by BDO LLP
Thameswey Developments Ltd	Property development	Significant component	Size and Risk	Risks 1 - 3	To be confirmed	Statutory audit performed by Hamlyn's LLP
Thameswey Housing Ltd	Provision of affordable housing	Significant component	Size and Risk	Risks 1 - 3	To be confirmed	Statutory audit performed by Hamlyn's LLP

We 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. This must not exceed our component materiality. At the time of preparing this report, the Council's 2020/21 group accounts are not yet available. We will confirm our component materiality levels to a future meeting of the Standards and Audit Committee.

AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS 2

The remaining Group entities are listed below and comprise subsidiaries where gross assets are expected to be 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.

As noted on page 9, at the time of preparing this report, the Council's 2020/21 group accounts are not yet available. We will update our expected audit classification for each component following receipt of the Council's 2020/21 financial statements, and report this to a future meeting of the Standards and Audit Committee.

Entity	Nature of Operations	Expected audit classification	Reason for classification
Thameswey Ltd	Holding company for investments in Thameswey subsidiaries	Not significant component	Size
Thameswey Energy Ltd	Production and supply of electricity, heat and water	Not significant component	Size
Thameswey Central Milton Keynes Ltd	Production and supply of electricity, heat and water	Not significant component	Size
Thameswey Guest House Ltd	Provision of guest housing in Woking	Not significant component	Size
Thameswey Solar Ltd	Solar panel installation	Not significant component	Size
Thameswey Maintenance Services Ltd	Maintenance of energy systems	Not significant component	Size
Thameswey Sustainable Communities Ltd	Promotion of renewable energy activities	Not significant component	Size
Energy Centre for Sustainable Communities Ltd	Dormant company	Not significant component	Size
Rutland Woking Limited	Property development	Not significant component	Size

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Team responsibilities

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is 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 National Audit Office.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



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

OVERVIEW

Audit risks

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.

Key: **Significant** / **Normal**

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls
2. Revenue (and expenditure) recognition			Auditing standards presume that income recognition presents a fraud risk. For public sector bodies the risk of fraud related to expenditure is also relevant.
3. Valuation of Non-Current Assets			The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.
4. Valuation of pension liability			The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty
5. Allowance for non-collection of receivables			There is a risk over the valuation of the allowance for the non-collection of arrears and debt.
6. Recoverability of loans to subsidiaries and associate			There is a risk that loans advanced to subsidiaries and associate entities are not fully recoverable
7. Minimum Revenue Provision (MRP) policy			There is a risk that the Council's current policy for its Minimum Revenue Provision is not sufficiently prudent and does not comply with revised MHCLG guidance.
8. Group consolidation			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
9. Use of resources			The Code of Audit Practice was updated with effect from 1 April 2020 and as a consequence the scope of our value for money work has changed for the year ending 31 March 2021. We are not yet in a position to report risks of significant weakness under the new Code requirements to those charged with governance and will issue an updated planning report once our risk assessment has progressed. Further information is provided on page 22.

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MANAGEMENT OVERRIDE OF CONTROLS

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

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 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 and 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
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

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	

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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

In response to this risk we will undertake the following work:

- Test an increased sample of grants included in income to documentation from grant paying bodies and assess whether recognition criteria have been met;
- Test an increased 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.

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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 will include the following:

- Reviewing the instructions provided to the valuer and the valuer’s skills and expertise in order to determine if we can rely on the management expert
- Confirming that the basis of valuation for assets valued in year is appropriate based on their usage
- Reviewing accuracy and completeness of information provided to the valuer, such as rental agreements and sizes
- Reviewing assumptions used by the valuer and movements against relevant indices for similar classes of assets
- Following up valuation movements that appear unusual
- Confirming that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

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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 and 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.

Planned audit approach

Our audit procedures will include the following:

- Agreeing the disclosures to the information provided by the pension fund actuary
- Reviewing the competence of the management expert (actuary)
- Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Reviewing the controls in place for providing accurate membership data to the actuary
- Contacting the pension fund auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checking that any significant changes in membership data have been communicated to the actuary.

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

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.

Planned audit approach

In response to this risk we will: und

- Assess whether management’s assumptions appropriately reflect potential losses given current economic conditions and, for those amounts falling within the scope of IFRS 9, the provision reflects expected credit losses.

- 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

RECOVERABILITY OF LOANS TO SUBSIDIARIES AND ASSOCIATE

There is a risk that loans advanced to subsidiaries and associate entities are not fully recoverable

Risk detail

The Council provides loan funding to its subsidiaries and Victoria Square to fund their capital spending. This has increased significantly in recent years. The Council's ability to recover these loans will depend on those subsidiary entities and associate generating sufficient profits to repay this debt.

Given the current economic climate, we consider that there is a risk that these amount will not be fully recoverable.

Planned audit approach

In response to this risk we will undertake the following work:

- Assess whether management's assumptions appropriately reflect the recoverability of these loans, given current economic conditions.

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

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MINIMUM REVENUE PROVISION

There is a risk that the current MRP policy is not sufficiently prudent and does not comply with revised MHCLG guidance.

- 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

In previous years we have noted that the Council’s policy for its Minimum Revenue Provision (MRP) does not set aside any charge against the borrowing obtained to fund the loans to subsidiaries and the Victoria Square Ltd associate. The MRP strategy notes that the Council’s borrowing is repaid on a back-to-back basis against loan repayments from these entities and that the business models would result in full repayment of the loans over the next 50 years. The Government and CIPFA have become concerned that local authorities are not putting aside sufficient resources to repay loans and MHCLG issued amended regulations for calculating a ‘prudent’ MRP charge for any new borrowing and investments from 1 April 2019. This is likely to increase the annual MRP charge for local authorities.

While the regulations allow previous MRP policies to continue for historic borrowing, Government has advised that local authorities should revisit their existing MRP policies against the new guidance, particularly for investments where no MRP is currently being charged. Under the revised guidance a higher MRP would have been charged on some historic borrowing.

Government is of the view that local authorities should be building up a ‘buffer’ against potential losses by setting aside an MRP charge even on investments where there is an expectation that the loans will be fully repaid by the investee from future profits or asset sales.

We have recommended that the Council reviews its existing MRP policy to confirm that it is compliant with the new guidance for investments supported by borrowing from 1 April 2019. We also recommended that for pre-April 2019 investments, that the Council closely monitor the business plans of the subsidiaries to confirm that the loans will be fully repaid. If it considered the loans will not be repaid it would be appropriate to commence making an MRP charge against that borrowing.

Planned audit approach

In response to this risk we will undertake the following work:

- Assess whether the Council’s MRP policy complies with guidance issued by MHCLG, and in doing so, review the Council’s legal advice on this matter; and
- Assess whether the Council’s policy is sufficiently prudent.

We have also received an objection from a member of the public alleging that the Council’s MRP policy is unlawful. As part of our work in this area, we will consider the matters raised by the objector and, following the conclusion of our work, we will write to the objector setting out our findings.

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GROUP CONSOLIDATION

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 (and the previous year) 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.

Planned audit approach

In response to this risk we will undertake the following work:

- Test 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;
- Test adjustments required for any material accounting policy differences from UK GAAP and IFRS; and
- Test the consolidation process and elimination of intra-group transactions and balances.

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USE OF RESOURCES

New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

In addition to new assessment criteria and commentary requirements, the scope of the new Code also considerably increases auditors’ requirements for planning documentation and management should expect an increase in requests for discussion and evidence to facilitate this requirement.

Risk of Significant Weakness

We are required to report the results of our risk assessment to those charged with governance, including additional work planned in respect of any identified risks of significant weakness, and to keep our risk assessment under continual review, with any changes again communicated to those charged with governance.

We are working through the implications of the new Code, including our risk assessment and a work programme that addresses risks of significant weakness identified.

Pertinent matters from early discussions with management include how the Council plans finances to support the sustainable delivery of services in accordance with its strategic and statutory priorities (Financial Sustainability), how the Council ensures it delivers its role, engages with stakeholders, monitors performance and acts for improvement within significant partnerships (Improving 3Es) and how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency (Governance). We are however not yet in a position to report any risks of significant weakness.

We will update the Standards and Audit Committee on risks of significant weakness and planned work at a subsequent meeting.

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GOING CONCERN

Officers are required to make an assessment of the Council's ability to continue as a going concern.

Directors' responsibilities

It is the officers' 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 directors' 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:

(a) 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

(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 Council's 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 Council's 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.

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OTHER MATTERS REQUIRING FURTHER DISCUSSION

Fraud

Whilst the officers of the Council 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 not been made aware of any actual alleged or suspected incidences of fraud. 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.

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 2020/21 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.

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.

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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.

Financial statement disclosures

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

Contingencies

We request input from the Standards and Audit Committee on recent claims.

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.



IRREGULARITIES (INCLUDING FRAUD)

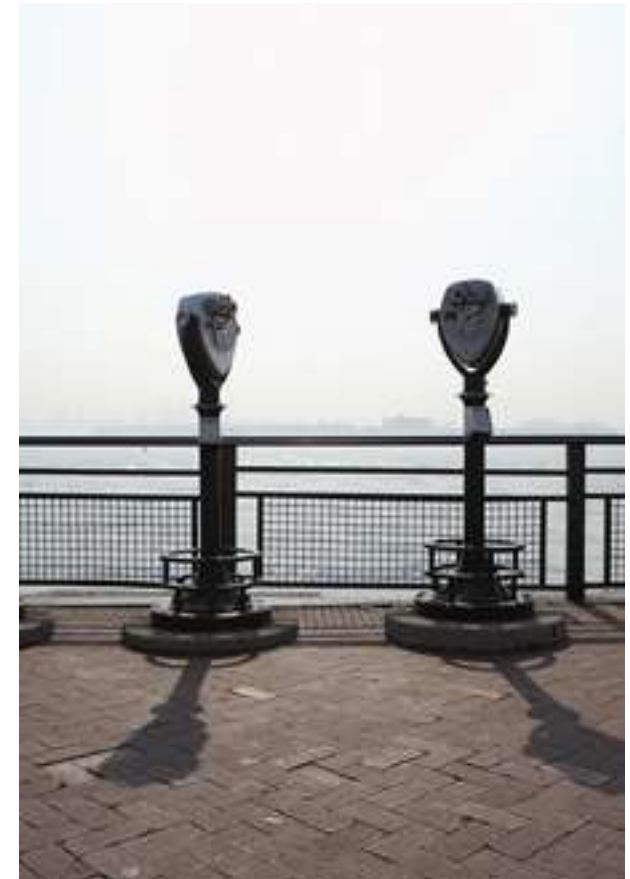
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as whole a free from material misstatement whether due to fraud or error. We design audit procedures to respond to the risk of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and that irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the Council's financial statements and may include, where appropriate:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations
- Enquiries of management, those charged with governance and the Council's legal advisers
- Agreement of the financial statement disclosures to underlying supporting documentation
- Review of minutes of Council and Cabinet meetings throughout the year and of correspondence with regulatory authorities
- Written representations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.



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ACCOUNTING ESTIMATES

Revision to ISA (UK) 540 means that we may need to update our approach the audit of accounting estimates - including confirmation and documentation of our understanding of the Council's estimation process.

We will need to obtain an understanding of how you control your estimation process including not only the design and implementation of the process, but also the policies and procedures you put in place to satisfy yourself that each step in the process is properly applied, and that the resulting accounting estimates are reasonable.

For significant accounting estimates, particularly those that are complex or where there is a high degree of estimation uncertainty we will also make enquiries about how you:

- Make those responsible for deriving or changing your accounting estimates aware of relevant significant transactions, conditions or events
- Review the outcome(s) of previous accounting estimates and respond to the results of that review
- Identify and comply with the relevant requirements in the applicable financial reporting framework regarding your accounting estimates and related disclosures including how they are affected by complexity and your judgment
- Account for regulatory factors relevant to the Council's accounting estimates;, including, when applicable, regulatory frameworks related to prudential supervision
- Identify the need for, and apply, specialised skills or knowledge related to accounting estimates, including with respect to the use of a management's expert
- Identify and address risks related to accounting estimates through your risk assessment process

- Identify relevant methods (including models), assumptions and data and the need for changes in them and from those identified, and select those to apply
- Address the degree of estimation uncertainty in selecting your final point estimates
- Describe in your financial statements matters related to your process for deriving your accounting estimates, and matters related to the degrees of estimation uncertainty underlying your accounting estimates
- Ensure there is oversight and governance in place over management's financial reporting process relevant to accounting estimates.

Under ISA (UK) 540 (revised) our audit approach will involve a more granular risk assessment relating to each significant estimate and separate consideration of the methods (or models) applied in calculating the estimate, the nature, source and reliability of data used and the significance, consistency and appropriateness of assumptions made.

We will also request written representations from you regarding the reasonableness of the methods, significant assumptions and the data used in determining the monetary amounts of accounting estimates, including the related disclosures, in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21.

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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.



FRC ETHICAL STANDARD (DECEMBER 2019)

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In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines as applicable to our audit of the Council.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.

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 2021.

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 Council and 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 Council during the period and up to the date of this report are set out in the fees table on page 7.

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

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COUNCIL'S RESPONSIBILITIES

The Council's responsibilities and reporting

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 2020/21, 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 Annual Report 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 and to provide an annual commentary on arrangements in the Auditor’s Annual Report.

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 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.



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COMMUNICATION WITH YOU

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Those charged with governance

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.

In communicating with the Standards and Audit, 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.

Auditor’s Annual Report

We will provide an annual commentary on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council. The Auditor’s Annual Report is required to be published by the Council.

TEAM MEMBER ROTATION

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
Steve Bladen Engagement lead	2	10 years
Matthew Vosper Manager	3	10 years

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MATERIALITY: DEFINITION AND APPLICATION

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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
- Instances when greater precision is required (e.g. disclosure of senior officers’ remuneration 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
- 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.

Definition of materiality under IFRS

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

MATERIALITY: DEFINITION AND APPLICATION



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 [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.

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NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

We would like to draw to your attention the following summary of key changes to standards, regulations and other financing reporting developments, their effective dates and an indication, based on preliminary discussions with management and our sector understanding, of their possible effect on the annual report.

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments	Expected effect				Effective for periods beginning on or after 1 January	
	None	Low	Medium	High	2020	2021
Amendments to IFRS 3 <i>Definition of a business</i>		●				●
Auditing standard - audit of accounting estimates Increased emphasis on understanding management’s processes, systems and controls estimation uncertainty and financial statement disclosures			●		●	
Auditing standard - going concern Increased emphasis on evaluation of management’s assessment of the entity’s ability to continue as a going concern			●		●	
Auditing standard - audit reports New audit report format with updated conclusion on going concern and reference to irregularities, including fraud			●		●	

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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 Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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