



TO THE CHAIRMAN AND MEMBERS OF THE **STANDARDS AND AUDIT COMMITTEE**

You are hereby summoned to attend a meeting of the Standards and Audit Committee to be held on Thursday, 11 April 2019 at 7.00 pm in the Boardroom, Civic Offices, Gloucester Square, Woking, Surrey GU21 6YL.

The agenda for the meeting is set out below.

RAY MORGAN
Chief Executive

AGENDA

PART I - PRESS AND PUBLIC PRESENT

1. Minutes

To approve the minutes of the meeting of the Standards and Audit Committee held on 7 March 2019 as published.

2. Apologies for Absence

To receive any apologies for absence.

3. Declarations of Interest

To receive declarations of disclosable pecuniary and other interests from Members in respect of any item to be considered at the meeting.

In accordance with the Officer Procedure Rules, the Head of Democratic and Legal Services, Peter Bryant, will declare an interest in any items under which the Thameswey Group of Companies, Brookwood Cemetery or Duke's Court are discussed, arising from his position as a Director of the subsidiary companies. The interest is such that speaking is permissible.

4. Urgent Business

To consider any business that the Chairman rules may be dealt with under Section 100B(4) of the Local Government Act 1972.

Matters for Determination

5. External Audit Plan STA19-005 (Pages 3 - 42)

Reporting Person – Leigh Clarke

AGENDA ENDS

Date Published - 3 April 2019

For further information regarding this agenda and arrangements for the meeting, please contact Doug Davern on 01483 743018 or email doug.davern@woking.gov.uk



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STANDARDS AND AUDIT COMMITTEE – 11 APRIL 2019

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 2018-19.

Recommendations

The Committee is requested to:

RESOLVE That the External Audit Plan for 2018-19 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: 3 April 2019

Report to the Standards and Audit Committee

WOKING BOROUGH COUNCIL

Audit Planning: year ending 31 March 2019



IDEAS | PEOPLE | TRUST



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WELCOME

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We have pleasure in presenting our Audit Planning Report for 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 2019 in respect of our audit of the financial statements of the Council and consolidated entities (together the 'group') and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and 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 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 Standards and Audit Committee meeting please contact one of the team.



Leigh Lloyd-Thomas

22 March 2019

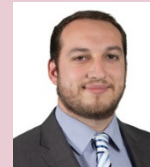


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This report has been prepared solely for the use of those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

SCOPE AND MATERIALITY

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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 2019.

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 NAO'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 NAO.

Materiality

Planning materiality for the Council and Group will be set at 1.9% of gross expenditure for the year using the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit. As there is little difference between the Council and Group materiality, we have kept these at the same amount

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.

We usually set our trivial level for reporting misstatements at 2% of materiality (£58,000) although we can set a trivial level up the upper range at 5% of materiality. We note that your previous auditor set this at 5%. We propose capping the trivial level at £100,000 (3.5% of materiality) but will revert to 5% if the Standards and Audit Committee believe this is appropriate.



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 organisation, 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.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We will continue to update this assessment throughout the audit.

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

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Risk identified - financial statements	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
Related party transactions	Normal	No	Substantive	Low
Classification and measurement of financial instruments (IFRS 9)	Normal	No	Substantive	Medium
Revenue from contracts with customers (IFRS 15)	Normal	No	Substantive	Medium
Group consolidation	Normal	No	Substantive	Low
Risk identified - Use of resources	Risk rating	Testing approach		
Sustainable finances	Significant	Detailed review		

INDEPENDENCE AND FEES

Executive summary



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

	2018/19 £	2017/18 £
Code audit fees	⁽¹⁾ 42,121	54,702
Total audit fees	42,121	54,702
Non audit fees		
- Housing Benefits Grant Claim	7,208	7,208
- Pooling Housing Capital Receipts	3,000	3,000
Non audit fees	10,208	10,208
Total fees	52,329	64,910

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

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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 NAO.
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 2018/19 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 where 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

We have considered the group structure and all components within the group to determine our audit strategy.

We have selected those components of the group that we deem significant based on the percentage of overall Group gross assets, which corresponds to the significant risks identified on page 14, and further explored on page 18, listing those we will review in detail below. For these significant components we will issue group instructions to the component auditor and organise a time to discuss intended audit approach, methodology and results of testing with them. For reference we list all other group entities on the following pages for those deemed not to be significant components. 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 significant entity.

Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
Woking Borough Council	Provides district council services	Significant	Size and Risk Income £140m Assets £1,174m (31/3/18 accounts)	Risk 1 - 10	£2.9m	Statutory audit performed by BDO LLP
Thameswey Ltd	Holding company for investments in Thameswey subsidiaries	Significant component	Size and Risk Income £14m Assets £257m (31/12/17 accounts)	Risks 3, 7 and 8	£1.0m	Statutory audit performed by Hamlyn's LLP
Thameswey Developments Ltd	Property development	Significant component	Size and Risk Income £2.5m Assets £62m (31/12/17 accounts)	Risks 3, 7 and 8	£1.0m	Statutory audit performed by Hamlyn's LLP
Thameswey Housing Ltd	Provision of affordable housing	Significant component	Size and Risk Income £5.2m Assets £158m (31/12/17 accounts)	Risks 3, 7 and 8	£1.0m	Statutory audit performed by Hamlyn's LLP

We have set materiality levels for each 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 should be lower level than our component materiality.

For the Group financial statements, some of the Council's expenditure relates to income in the subsidiaries and a significant part of the Council's investments and loans are borrowings in the subsidiaries that has been used to acquire property.

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AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

The rest of the Group's entities are listed below to confirm they have not been deemed significant group components, with each having a percentage of Group gross assets below 5%. The exceptions being Victoria Square Woking Ltd and Dukes Court Owners, which have not been deemed significant group components. We have designated these as material components however and will review the work of each component auditor as applicable. For non-significant and non-material 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 Energy Ltd	Production and supply of electricity, heat and water Income £3.9m / Assets £17m	Not significant component	Size
Thameswey Central Milton Keynes Ltd	Production and supply of electricity, heat and water Income £3.6m / 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 £2.9m	Not significant component	Size
Thameswey Maintenance Ltd	Maintenance of energy systems Income £2.1m / Assets £1.2m	Not significant component	Size
Thameswey Sustainable Communities Ltd	Promotion of renewable energy activities Income £1.3m / Assets £0.6m	Not significant component	Size
Brunswick Road (Pirbright) Residents Company Ltd	Property and estate management Income £Nil / Assets £0.0m	Not significant component	Size
Rutland Woking Limited	Property development Income £0.05m / Assets £0.6m	Not significant component	Size

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AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

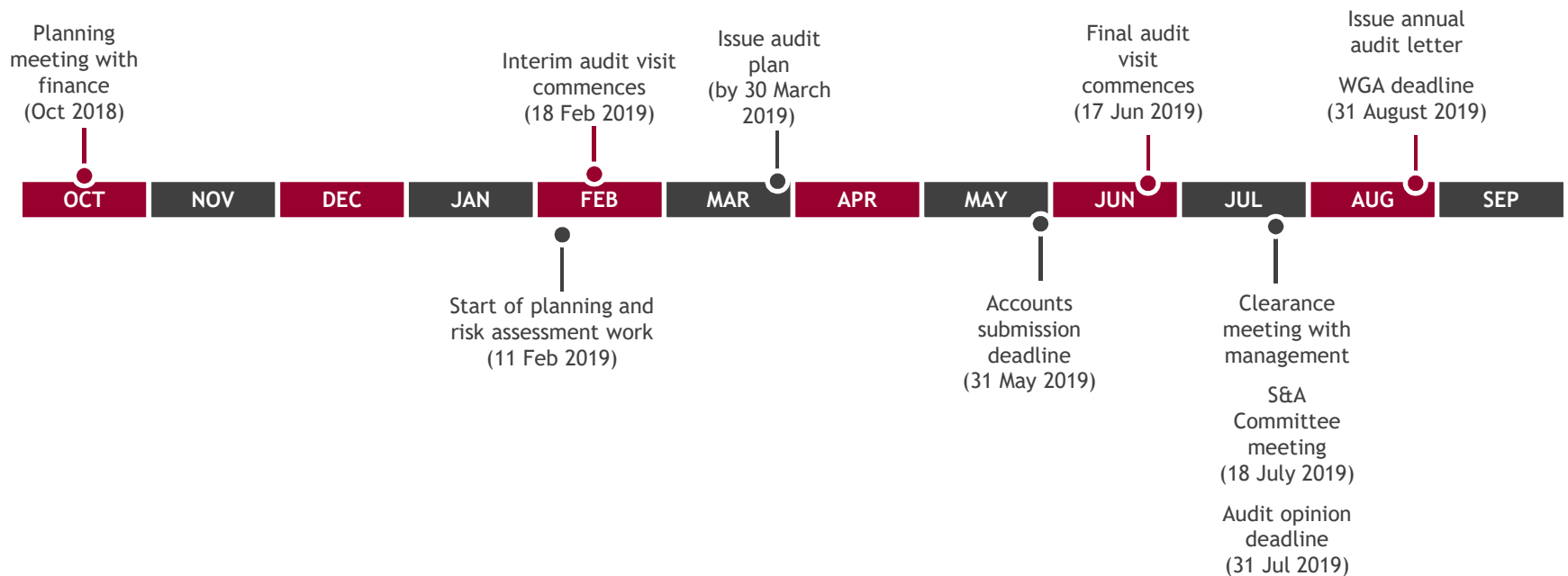
The rest of the Group's entities are listed below to confirm they have not been deemed significant group components. We will perform high-level analytical reviews on key financial figures but we will not need to issue instructions to the component auditors. We have identified two components as not significant but material. This will require further work on our part and goes further than a high level analytical review.

Entity	Nature of Operations	Audit classification	Reason for classification
Rutland Woking (Residential) Limited	Property development Income £0.02m / 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 £4.9m	Not significant component	Size
Brookwood Cemetery Ltd	Holding of land for cemetery use Income £Nil / Assets £0.8m	Not significant component	Size
Dukes Court Owner - T S.a.r.l	Holding of Dukes Court, Woking Income £6.9m / Assets £75m	Not significant component but material	Not significant because the Council intends to wind this company up in the near future. Material due to the value of fixed assets held.
Victoria Square Woking Ltd	Redevelopment projects Income £Nil / Assets £74m	Not significant component but material	Not significant because it is designated as an associate but it is material due to value of assets held.

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AUDIT TIMELINE

An overview of the key dates



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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 as set out here.



Matthew Vosper
Audit Manager

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I will lead on the audit of the 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 deadlines are met and matters to be communicated to management and the Standards and Audit Committee are highlighted on a timely basis.

Louise Govan
Audit Senior

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I will be responsible for the day to day supervision of the on-site audit team.

OVERVIEW

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 conclusion 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 risk	Normal risk	Overview of risk
1. Management override of controls			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			There is risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue. There is also a risk of manipulation of expenditure recognition by including expenditure in the following year.
3. Property, plant & equipment and Investment property valuations			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			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
5. Allowance for non-collection of receivables			<p>There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.</p> <p>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 into account assumptions about the future credit losses. However, this only applies to receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.</p>

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Description of risk	Significant risk	Normal risk	Overview of risk
6. Related party transactions			There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.
7. Classification and measurement of financial instruments (IFRS 9)			There is a risk that relevant financial assets and liabilities of the Council are not classified and measured in accordance with the new accounting standard. There is also the risk that the components entities, who report under UK GAAP, may not have undertaken a review for potential consolidation adjustments for their financial instruments to comply the new standard in the Group financial statements.
8. Revenue from contracts with customers (IFRS 15)			There is a risk that relevant revenue streams of the Council are not recognised in the financial statements in accordance with the new standard. There is also the risk that the component entities, who report under UK GAAP, may not have undertaken a review for potential consolidation adjustments to their revenue recognition policies to comply with the new standard in the Group financial statements.
9. Group consolidation			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.
10. Sustainable finances			The Council will need to deliver certain savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

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MANAGEMENT OVERRIDE OF CONTROLS

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

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 large and unusual 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.



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

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

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

Planned audit approach

Our audit procedures 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; 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.

PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATIONS

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

- Significant risk
- Normal risk
- 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, dwellings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council engages an expert to re-value all high-value assets annually, whilst low-value assets are re-valued on a rolling five year programme. The assets are valued as at the reporting period end date - 31 March.

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

Planned audit approach

Our audit procedures 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.

PENSION LIABILITY VALUATION

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

Risk detail

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

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

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	—

Planned audit approach

Our audit procedures will include the following:

- Agree the disclosures to the information provided by the pension fund 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 (we will be required to seek assurances from the pension fund auditor); and
- Check whether any significant changes in membership data have been communicated to the actuary.

ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES

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

- 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 it's share of business rates and council tax.

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 into account assumptions about the future credit losses. However, this only applies to receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

Planned audit approach

Our audit procedures will include the following:

- Review the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears and, for receivables classified as financial instruments, includes appropriate assumptions for expected credit losses.

RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.

Risk detail

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

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

Planned audit approach

Our audit procedures will include the following:

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

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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CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (IFRS 9)

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There is a risk that financial instruments are not classified and measured in accordance with IFRS9.

- 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

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation. CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.

The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. This will need to include both the Council and component entities in the Group financial statements, who report under UK GAAP rather than IFRS as this new accounting standard has not yet been adopted into UK GAAP.

The Council has significant loans to subsidiaries that will require re-measurement using the new expected credit loss model.

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

Planned audit approach

Our audit procedures will include the following:

- Review the work performed by the Council to assess the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group;
- Review the work performed by the Council to assess the potential impact on measurement of loans to subsidiaries including future expected credit losses; and
- Review the disclosures required relating to the adoption of the new accounting standard.

REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

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

Risk detail

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised.

CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. Our initial review of revenue streams for local authorities suggests that there are unlikely to be material restatements required for the Council.

The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. This will need to include both the Council and component entities in the Group financial statements, who report under UK GAAP rather than IFRS as this new accounting standard has not yet been adopted into UK GAAP.

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

- 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

Planned audit approach

Our audit procedures will include the following:

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

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.

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.

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 2019 to underlying transactions and valuation certificates; and
- Agree the consolidation process and intra-group elimination of 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	

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SUSTAINABLE FINANCES

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.

Risk detail

In October 2018, the Council updated the Medium Term Financial Strategy (MTFS) covering the period 2018 to 2022, outlining a strategy to mitigate against cost pressures over the period to 2022.

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

The MTFS, based on current capital plans, assumes an additional £3.3m of ongoing savings or income is required by 31 March 2023, taking into account several expected pressures and assuming a surplus in 2019/20 and 2020/2021.

The Council faced the threat of a £1m negative Revenue Support Grant (RSG) for 2019/20. This threat was removed in December 2018 which enabled the Council to budget for a £1.3m transfer to reserves in 2019/20. As at 31 March 2018 the General Fund earmarked reserves and balances of Woking Borough Council sat at £30.4m, an increase of £6m on the previous year.

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 2018/19 and the plans to reduce services costs and increase income from 2019/20; and
- Review the strategies to close the budget gap in the coming years.

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	

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OTHER MATTERS REQUIRING FURTHER DISCUSSION

Fraud

Whilst the Finance Director has ultimate responsibility for prevention and detection of fraud, and councillors have a duty to ensure there are adequate controls to reduce losses to fraud and corruption, 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 number of low value actual, alleged or suspected incidences of fraud committed by users of the Council's services (such as fraudulent housing benefits etc.). We expect 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.

Significant estimates

We will report to you on significant estimates. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historic 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 understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Laws and regulations

We will consider compliance with Laws and regulations. The most significant of these for your business includes VAT legislation and Employment Taxes. We will make enquiries of management and review correspondence with the relevant authorities. Specialist teams within BDO may review VAT and employment tax compliance.

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 CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other directions under the circumstances.

Financial statement disclosures

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

Contingencies

We request input from management on any 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.

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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 centre 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, to include:

- Integra
- Academy Income Management
- Academy NNDR/CT/Benefits
- AssetManager.net
- Frontier HR



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INDEPENDENCE

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

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

Non-audit services

Proposed non-audit services to be provided by us to the Council and Group for the 2018/19 financial year include certification of the Housing Benefit Subsidy grant claim and the Pooling Housing Capital Receipts return. Further information, including a breakdown of the fees to be received, can be found on page 29.

Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

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

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit that they 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.

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Fees summary for year ending 31 March 2019

	2018/19 £	2017/18 £
Code audit fees	⁽¹⁾ 42,121	54,702
Total audit fees	42,121	54,702
Non audit fees		
- Housing Benefits Grant Claim	7,208	7,208
- Pooling Housing Capital Receipts	3,000	3,000
Non audit fees	10,208	10,208
Total fees	52,329	64,910

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

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COUNCIL'S RESPONSIBILITIES

The Council's Responsibilities and Reporting

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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 publishing the Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2018/19, 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 the 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.

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting - financial statements

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and the Council's 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 NAO 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 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 Those Charged With Governance of the Council and the Group, we consider Those Charged With Governance 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.

Planning Report

The 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.

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These tables indicate the latest rotation periods normally permitted under the independence rules of the terms of appointment by PSAA.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below 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 before
Leigh Lloyd-Thomas Partner	1	5 years (last year will be 2022/2023)
Matthew Vosper Audit manager	1	10 years

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
- Compliance with loan covenants
- Instances when greater precision is required (e.g. senior managers 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 transaction, 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.

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 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.

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AUDIT QUALITY

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BDO’s audit quality cornerstones underpin the firm’s definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest entities.

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



FOR MORE INFORMATION:

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

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