



Report to the Audit and Standards Committee

SURREY HEATH BOROUGH COUNCIL

Audit Planning Report: year ended 31 March 2020

IDEAS | PEOPLE | TRUST



CONTENTS

1	Introduction	3
	Welcome	3
2	Executive summary	4
	Scope and materiality	4
3	Executive summary	5
	Scope and materiality	5
	Audit strategy	6
	Audit risks overview	7
	Independence and fees	8
	Coronavirus	9
4	Audit scope and objectives	12
	Overview	12
	BDO team	13
5	Audit risks	14
	Overview	14

	Management override of controls	15
	Revenue and Expenditure recognition	16
	Valuation of non-Current assets	17
	Valuation of pension liability	18
	Allowance for non collection of receivables	19
	Going concern	20
	Sustainable finances (Use of Resources)	22
	Financial statement preparation (Use of Resources)	23
	Other matters requiring further discussion	24
	The Main Square Camberley Unit Trust	25
	Irregularities (including fraud)	26
	Accounting estimates	27
	IT general controls	28
6	Independence	29
	Independence	29
7	Appendices contents	30

WELCOME

CONTENTS

Introduction

Welcome

Executive summary

Executive summary

Audit scope and objectives

Audit risks

Independence

Appendices contents

We have pleasure in presenting our Audit Planning Report to Members of the Audit and Standards Committee of Surrey Heath 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 ended 31 March 2020 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these 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 receiving your input on our proposed scope and approach. In the meantime if you would like to discuss any aspect of our audit planning report with me, please do not hesitate to contact me.

Steve Bladen, Director

For and on behalf of BDO LLP, Appointed Auditor

31 July 2020

Steve Bladen

Engagement Director

t: 020 3860 6563

e: steve.bladen@bdo.co.uk

Michael Asare Bediako

Audit Manager

t: 020 7893 3643

e: michael.asarebediako@bdo.co.uk

This report has been prepared solely for the use of the Audit and Standards 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.

SCOPE AND MATERIALITY

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Executive summary

Audit scope and objectives

Audit risks

Independence

Appendices contents

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

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

Audit scope

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

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



SCOPE AND MATERIALITY

Executive summary

CONTENTS

Introduction

Executive summary

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Coronavirus

Audit scope and objectives

Audit risks

Independence

Appendices contents

Materiality

Planning materiality for the Council has been set at 2% of gross revenue expenditure for the year. Based on the prior year financial statements this has been calculated as £1.4 million. This will be revisited when the draft financial statements are received for audit. We have set our clearly trivial threshold at £56,000.

In the prior year we set overall planning materiality at 2% of long term assets. This was set at £4.5 million. However, we also applied a lower level of specific materiality to income and expenditure transactions that impacted on revenue resources. This was calculated on the basis of 2% of gross expenditure and was set at £1.4 million. Our judgement this year is that while the Council holds a significant investment property portfolio, as a public sector entity, the key focus of the user of the financial statements is the Council's revenue expenditure.

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



AUDIT STRATEGY

Executive summary

CONTENTS

Introduction

Executive summary

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Coronavirus

Audit scope and objectives

Audit risks

Independence

Appendices contents



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 Council's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

We will continue to update this assessment throughout the audit.

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

AUDIT RISKS OVERVIEW

Executive summary

CONTENTS

Introduction

Executive summary

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Coronavirus

Audit scope and objectives

Audit risks

Independence

Appendices contents

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	Medium
Going concern	Normal	No	Substantive	Medium

Risks identified - Use of resources	Risk rating	Testing approach
Sustainable finances	Significant	Detailed review
Informed decision making - financial statement preparation	Significant	Detailed review



INDEPENDENCE AND FEES

Executive summary



Notes

- (1) The 2018/19 planned audit fee is the PSAA published scale fee. The scale is based on the historical position from 2012/13, and does not reflect the Council's significant investment in commercial property in recent years, or any of the changes in audit scope linked to current audit requirements for property assets, pensions liability, Council accounts work, or whole of government accounts. As a consequence of this change in scope and material errors identified in the accounts, we incurred significant additional costs in 2018/19, and therefore proposed an increase of £48,228 to our audit fee for 2018/19. We already notified management and Audit and Standards Committee about the additional fees. We will then submit a formal request to vary the fee to PSAA Ltd once we have agreed on the additional fees with management.
- (2) The 2019/20 planned Code fee is the PSAA-published scale fee. The scale is based on the historical position from 2012/13 and so does not reflect any of the changes in audit scope and depth linked to current audit requirements for property assets or pensions liability valuation work. The scale also does not reflect the additional use of resources risk relating to sustainable finances. In total, we estimate that these factors will increase our fee by £20,000. Discussions on the total fee impact will be held initially with officers in the context of detailed operational planning and interim audit scope so as to best mitigate increases.
- (3) Additional work was required for each error type identified, either to quantify an amendment to the subsidy return, or to test a sufficient number of cases to be able to extrapolate the impact of the errors identified over the untested population of claims.

Independence

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

Fees

	2019/20 £	2018/19 £
Code audit fees	35,347	35,347
Additional audit fee	⁽²⁾ 20,000	⁽¹⁾ 48,228
Total audit fees	55,347	83,575
Non audit fees		
- Housing Benefit Subsidy certification	14,000	10,000
- Housing Benefit Subsidy additional fee	-	⁽³⁾ 1,500
Non audit fees	14,000	11,500
Total fees	69,347	95,075

CORONAVIRUS

The effects on year-end reporting and auditing

CONTENTS

Introduction

Executive summary

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Coronavirus

Audit scope and objectives

Audit risks

Independence

Appendices contents

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, directors are required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging from directors, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern directors are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.

- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the directors consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the directors' assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of directors' assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

CORONAVIRUS 2

The effects on year-end reporting and auditing

CONTENTS

Introduction

Executive summary

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Coronavirus

Audit scope and objectives

Audit risks

Independence

Appendices contents

Financial reporting implications

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

Leases:

IFRS 16 Leases will be effective from 1 April 2021 (a further one year deferral).

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Coronavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

CORONAVIRUS 3

The effects on year-end reporting and auditing

CONTENTS

Introduction

Executive summary

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Coronavirus

Audit scope and objectives

Audit risks

Independence

Appendices contents

Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
 - The valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
 - The valuation and disclosure of financial obligations and any lending covenants
 - Going concern and/or working capital assessment and disclosure
 - Risk disclosures
 - Subsequent event disclosures
 - As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the [Narrative Report / Annual Report] and Annual Governance Statement, in particular where we believe there are risks missing from the detail.

Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
 - Consider the impact on the audited entity
 - Consider alternative ways of working including the use of our technology tools
 - Consider implications for the quality of audit evidence and reporting.
- In undertaking audit work on the valuation of property, particularly specialised property valued using the Depreciated Replacement Cost method and Modern Equivalent Assets assumptions (including alternative site models), auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Council's financial statements and may be referred to by the auditor in their opinion/report.

OVERVIEW

Audit scope and objectives

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Overview
BDO team
Audit risks
Independence
Appendices contents

Key components of our audit objectives and strategy for the Council 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’s financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Audit report - going concern	We will report our conclusion on whether management’s use of the going concern basis of account is appropriate and will either report our conclusion that there is no material uncertainty related to going concern or draw attention to any material uncertainty identified by the directors and disclosed in the financial statements.
Use of Resources	We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
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 Audit and Standards Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit and Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

BDO TEAM

Team responsibilities

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Overview
BDO team
Audit risks
Independence
Appendices contents

Steve Bladen
Engagement Lead

t: 07870 514535
e: steve.bladen@bdo.co.uk

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 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.

Michael Asare Bediako
Audit Manager

t: 020 793 3643
e: Michael.asarebediako@bdo.co.uk

I will lead on the audit of the Council.

I work closely with the Engagement Lead 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 Audit and Standards 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			Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.
2. Revenue and expenditure recognition			Auditing standards presume that income recognition presents a fraud risk. In the public sector this is modified by Practice Note 10 issued by the Financial Reporting Council to recognise that this risk may also occur through the manipulation of expenditure recognition.
3. Valuation of non-current assets			The valuation of land and buildings, and investment properties, a high degree of estimation uncertainty and has therefore been recognised as a significant risk.
4. Valuation of pension liability			Calculation of the pension liability involves a high degree of estimation uncertainty and has therefore been recognised as a significant risk.
5. Allowance for non-collection of receivables			There is a risk over the valuation of allowances for the non-collection of arrears and debt if incorrect assumptions or source data are used, or an inappropriate methodology is applied.
6. Going concern			Given the COVID-19 pandemic, and the impact of this on the Council's financial position, there is a risk that the Council's financial statements contain insufficient disclosures around going concern.
7. Sustainable finances (Use of Resources)			The financial environment in which the Council operates continues to be challenging, and presents a number of risks to the financial sustainability of the Council. The Council will need to deliver significant savings targets to maintain its financial stability in the medium term; there is a significant risk that those savings will not be delivered.
8. Informed decision making - financial statement preparation (Use of Resources)			We identified weaknesses and internal control deficiencies in the preparation of the 2018/19 Statement of Accounts. Action has been taken within the finance team to ensure improvements in the presentation of 2019/20 financial statements, although there remains a risk that adequate arrangements are not yet in place.

- CONTENTS
- Introduction
- Executive summary
- Executive summary
- Audit scope and objectives
- Audit risks**
- Overview
- Management override of controls
- Revenue and expenditure recognition
- Valuation of non-current assets
- Valuation of pension liability
- Allowance for non collection of receivables
- Going concern
- Sustainable finances (Use of Resources)
- Financial statement preparation (Use of Resources)
- Other matters requiring further discussion
- The Main Square Camberley Unit Trust
- Irregularities (including fraud)
- Accounting estimates
- IT general controls
- Independence
- Appendices contents

MANAGEMENT OVERRIDE OF CONTROLS

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances ((Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

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

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

Risk detail

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Planned audit approach

Our audit procedures will include the following:

- Testing a sample of journal entries made throughout the year 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 estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Evaluate any significant transactions that appear to be outside the normal course of business, or that otherwise appear unusual; and
- Review unadjusted audit differences for indications of bias or deliberate misstatement.

In considering how the risk of management override may present itself, we consider the inappropriate capitalisation of revenue expenditure to be a risk. To address this risk we will:

- Test an increased sample of additions to non-current assets and investment property to confirm that expenditure has been classified correctly.

REVENUE AND EXPENDITURE RECOGNITION

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources))
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

Auditing standards presume that income and expenditure 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 income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be relevant to the existence (recognition) of revenue grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement. We also consider the risk to be relevant to the existence (recognition) of fees and charges 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 the cut-off of expenditure, where our testing will be focussed.

Planned audit approach

Our audit procedures will include the following:

- Testing an increased sample of investment property income to supporting documentation, including lease agreements, contracts and rent reviews;
- Testing an increased sample of grants included in income to documentation from grant paying bodies and checking whether recognition criteria have been met;
- Testing an increased sample of fees and charges to ensure that income has been recorded in the correct period; and
- Testing 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.

VALUATION OF NON-CURRENT ASSETS

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

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

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

Risk detail

Local authorities are required to ensure that the carrying value of land, buildings and 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. At 31 March 2019, the Council held other land and buildings of £128 million, and investment property of £83 million.

Valuations of property assets can be complex, and the estimates and judgments made by management are likely to have a significant impact on the value of those assets.

We consider there is a significant risk over the valuation of these assets due to the high degree of estimation uncertainty and management judgement.

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; and
- Confirming that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

VALUATION OF PENSION LIABILITY

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

Risk detail

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The Council's pension fund deficit at 31 March 2019 was £46 million.

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.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise, updated at 31 March 2020 for factors such as mortality rates and expected pay rises.

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 the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the Local Government Pension Scheme, and that any significant changes in membership data since the triennial submission have been communicated to the actuary; and
- Reviewing the steps taken by the Council to assess the impact of the recent volatility in global stock markets on the Council's pension fund 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	■

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

ALLOWANCE FOR NON COLLECTION OF RECEIVABLES

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

There is a risk over the valuation of the allowance for the non-collection of receivables.

- 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 primarily in respect of council tax, non-domestic rates, and housing benefit overpayments, and other miscellaneous income. Management assesses each type of receivable separately in determining how much to allow for non-collection.

The COVID-19 pandemic, and the resulting economic downturn, increases the risk of default by debtors. Historical collection rates will offer only an indication of potential future losses, and consequently the estimation of potential losses will require a significant degree of estimation.

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

For significant income streams and receivables and debt balances, we will review the provisions calculated by the Council to assess whether:

- Those provisions appropriately reflect potential losses given current economic conditions and, for assets within the scope of IFRS 9, that the provision reflects expected credit losses; and
- Information used to support the modelling of collection rates is appropriate and has been accurately extracted from underlying IT systems.

GOING CONCERN

Current conditions and interruption of normal cash flows may result in the Council having insufficient cash to meet liabilities as they fall due.

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

Management's responsibilities

It is management's responsibility to make an assessment of the Council's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures therein. 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 potential 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 approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

The assessment should also identify any material uncertainties relating to the group's ability to continue as a going concern.

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; and
- (b) To report in accordance with ISA (UK) 570.

Risk detail

The COVID-19 pandemic will have impacted on the Council's finances, arising from increased demands on the services provided by the Council, reductions in income from services, and the deferral of normal payment terms. While government has provided additional financial support to the Council, it is not clear whether this support will meet the financial impact of COVID-19 on the Council in its entirety. Given the current environment, there is a risk that the Council's financial statements contain insufficient disclosures around going concern.

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

GOING CONCERN

Current conditions and the interruption of normal cash flows may result in the Council having insufficient cash to meet liabilities as they fall due.

Planned audit approach

We will review the Council's budget and cash flow forecasts for 2020/21 and beyond, and evaluate:

- Whether assumptions around future income and expenditure are appropriate and are based on relevant, reliable data;
- Whether forecasts indicate periods where cash levels may be insufficient and, if so, management's plans to deal with any shortfalls;
- The impact on the Council's available reserves, and the reasonableness of any changes to the Council's reserves policy; and
- The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

In addressing this risk, we will place reliance on the work undertaken to address the significant risk identified in relation to sustainable finances.

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	

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

SUSTAINABLE FINANCES (USE OF RESOURCES)

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

The Council will need to deliver significant savings targets to maintain financial stability in the medium term; there is a risk that those savings will not be delivered.

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

Risk detail

The financial environment in which the Council operates continues to be challenging and presents a number of risks to the financial sustainability of the Council. The Council’s latest Medium Term Financial Strategy identifies a savings gap of £2.6 million over the period 2020/21 - 2023/24.

Delivering the necessary savings to deliver a balanced budget will be challenging, and is likely to require difficult decisions around service provision and alternative delivery models. There is a risk that this will not be achieved, impacting on the financial sustainability of the Council.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the Council’s decision making process in relation to the approval of its budget and Medium Term Financial Strategy, in particular the quality of the information provided to Members;
- Reviewing the assumptions within the Council’s Medium Term Financial Strategy, including the reasonableness of the cost pressures and income assumptions; and
- Testing a sample of the savings schemes to assess the level of delivery/benefit realisation, and the assumptions made in respect of subsequent years where those schemes deliver recurrent savings.

FINANCIAL STATEMENT PREPARATION (USE OF RESOURCES)

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

Significant weaknesses were identified in the Council's arrangements for the preparation of the statement of accounts and supporting working papers.

- 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

Our audit of the Council's 2018/19 financial statements, which were prepared during the 2019/20 financial year, identified a large number of misstatements. This included a number of material misstatements, prior period adjustments, and other non-trivial adjustments. We also noted a number of omissions and internal inconsistencies within the draft financial statements that we would have expected to have been identified and resolved by internal quality checks. Additionally, we noted a number of weaknesses in the working papers prepared by officers to support the financial statements.

We recognise that the Council has taken action to address these weaknesses and secure improvements in the preparation and presentation of the 2019/20 financial statements. We will assess the effectiveness of the actions taken by the Council.

Planned audit approach

Our audit procedures will include:

- Reviewing the arrangements put in place to improve the quality of the draft financial statements; and
- Reviewing the consistency of the financial statements with underlying working papers and assessing the quality of those working papers.

OTHER MATTERS REQUIRING FURTHER DISCUSSION

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

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

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

Internal audit

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

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

Laws and regulations

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

Financial statement disclosures

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

Accounting policies

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

Significant accounting estimates and judgements

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

Related parties

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

Contingencies

We request input from the Audit and Standards 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.

THE MAIN SQUARE CAMBERLEY UNIT TRUST

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

In 2016/17 the Council acquired the Main Square Camberley Unit Trust (the "Trust"). The Trust holds various properties within the Camberley Shopping Centre. The principal activity of the Trust is to invest in real estate for capital appreciation and collection of rental income. The legal form of the Trust does not confer separation from the Council and therefore transactions and balances relating to the Trust are incorporated into the Council's financial statements.

The Trust prepares financial statements which are subject to independent audit by BDO Jersey. We note, however, that the Trust's year end for financial reporting purposes (December) differs from that of the Council (March). The Trust's financial statements are also prepared under FRS102, whereas the Council's financial statements are based on International Financial Reporting Standards (IFRS).

In undertaking our audit of the Council, we plan to place reliance on BDO Jersey's work. In placing reliance on the work of BDO Jersey, we have undertaken the following procedures:

- Assessed the competence and independence of the BDO Jersey Team;
- Participated in planning meetings with the BDO Jersey Team, and communicated the work we require them to perform for the purposes of our audit. In doing so, we communicated details of the financial reporting framework applicable to the Council, our timetable, the significant risks of material misstatement relevant to our audit of the Council, identified, and the materiality levels applicable to our audit.

We will also undertake a review of the BDO Jersey team's key audit working papers, and key outputs from their audit including reports to Those Charged with Governance.

In addition to the reliance we place on the work of the BDO Jersey team, as part of our audit of the Council we will:

- Review the inclusion of the Trust's financial statements into the Council's financial statements;
- Undertake testing of transactions and balances arising in the Trust between January and March 2020;
- Obtain direct confirmation of the cash balances held by the Trust at 31 March;
- Review updated valuations of the investment property held by the Trust; and
- Confirm that any adjustments required to convert transactions and balances from an FRS102 basis to IFRS basis are complete and appropriate.

IRREGULARITIES (INCLUDING FRAUD)

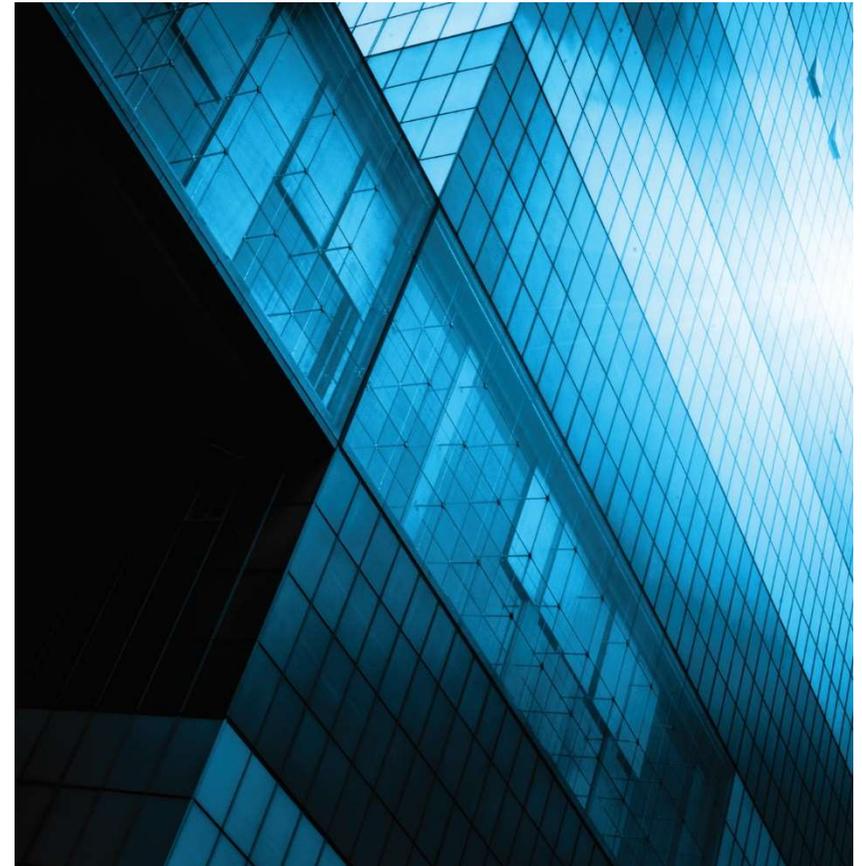
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

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 company financial statements and may include, where appropriate:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- enquiries of management and those charged with governance;
- agreement of the financial statement disclosures to underlying supporting documentation;
- review of minutes of board meetings throughout the year;
- 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.



CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

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 company'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 entity's accounting estimates, including, when applicable, regulatory frameworks related to prudential supervision
- identify the need for, and apply, specialized 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, 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 applicable financial reporting framework.

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

IT GENERAL CONTROLS

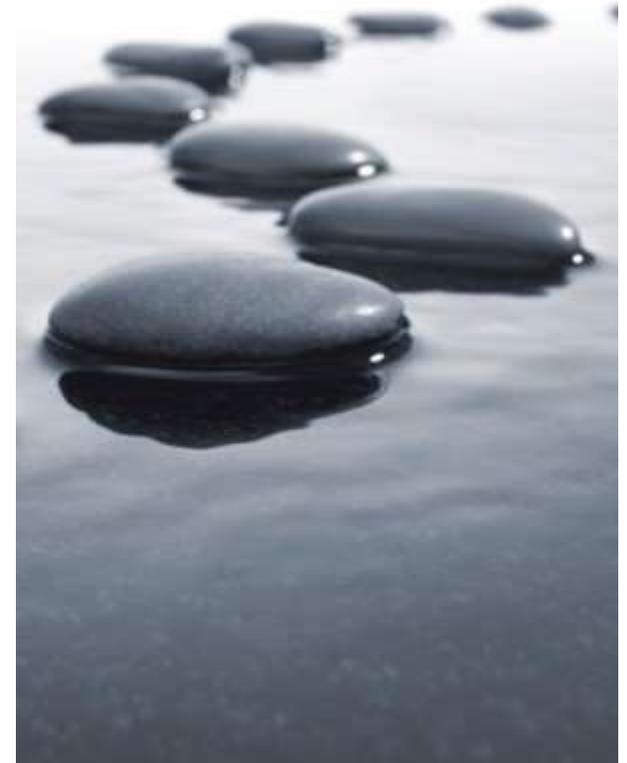
IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations;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

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

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

We will also obtain an understanding of the information systems, including the related business processes relevant to financial reporting, to include:

- Civica;
- Adalante;
- Chris21; and
- I-word/Northgate.



CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue and expenditure recognition
Valuation of non-current assets
Valuation of pension liability
Allowance for non collection of receivables
Going concern
Sustainable finances (Use of Resources)
Financial statement preparation (Use of Resources)
Other matters requiring further discussion
The Main Square Camberley Unit Trust
Irregularities (including fraud)
Accounting estimates
IT general controls
Independence
Appendices contents

INDEPENDENCE

CONTENTS
Introduction
Executive summary
Executive summary
Audit scope and objectives
Audit risks
Independence
Independence
Appendices contents

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 ended 31 March 2020.

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

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 Council.

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 8.

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

APPENDICES CONTENTS

A	Responsibilities	31
	Council's responsibilities	31
	Our responsibilities	32
	Communication with you	33
B	Independence	34
	Team member rotation	34
C	Materiality	35
	Materiality: Definition and application	35

AQR Results 2019/20	37
Latest regulatory developments	39
FRC Ethical standard	44

COUNCIL'S RESPONSIBILITIES

The Council's responsibilities and reporting

CONTENTS

Agenda contents

Responsibilities

Our responsibilities

Communication with you

Independence: Team Member Rotation

Materiality: Definition and application

AQR Results 2019/20

Latest regulatory developments

FRC Ethical standard

Financial reporting

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

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

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

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

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

Use of resources

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

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

In preparing its Governance Statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

OUR RESPONSIBILITIES

Responsibilities and reporting

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence: Team Member Rotation

Materiality: Definition and application

AQR Results 2019/20

Latest regulatory developments

FRC Ethical standard

Our responsibilities and reporting - financial reporting

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

We read and consider the ‘other information’ contained in the Statement of Accounts such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We are additionally required to include in our report:

- Where we conclude there is no material uncertainty in relation to going concern, a statement to that effect
- A conclusion that management’s use of the going concern basis of account is appropriate.
- An explanation of the extent to which the audit was capable of detecting irregularities, including fraud

Our responsibilities and reporting - use of resources

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

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

What we don’t report

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

CONTENTS

Agenda contents

Responsibilities

Our responsibilities

Communication with you

Independence: Team Member Rotation

Materiality: Definition and application

AQR Results 2019/20

Latest regulatory developments

FRC Ethical standard

Those charged with governance

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

In communicating with the Audit and Standards Committee, representing TCWG of the parent and the Council, 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.

INDEPENDENCE: TEAM MEMBER ROTATION

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence: Team Member Rotation
Materiality: Definition and application
AQR Results 2019/20
Latest regulatory developments
FRC Ethical standard

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 Director	1	7 years
Michael Asare Bediako Audit Manager	2	7 years

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence: Team Member Rotation
Materiality: Definition and application
AQR Results 2019/20
Latest regulatory developments
FRC Ethical standard

Concept and definition

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

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

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

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

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

Calculation and determination

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

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests;
- Calculate sample sizes; and
- Assist in evaluating the effect of known and likely misstatements on the Council 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 the CIPFA Code of Practice

information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting authority.

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 and Standards 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.

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence: Team Member Rotation

Materiality: Definition and application

AQR Results 2019/20

Latest regulatory developments

FRC Ethical standard

AQR RESULTS 2019/20

BDO Performance

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence: Team Member Rotation
Materiality: Definition and application
AQR Results 2019/20
Latest regulatory developments
FRC Ethical standard

Overview

The FRC released their Audit Quality Review results for the 7 largest accountancy firms in July 2020 for the review period 2019/20. A copy of all of the reports can be found on the [FRC Website](#).

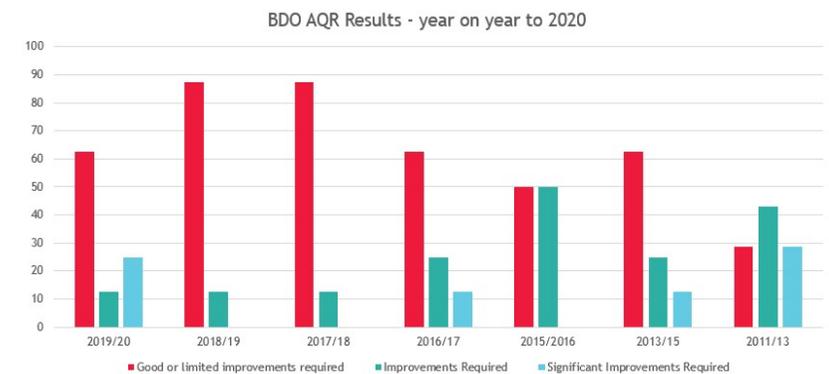
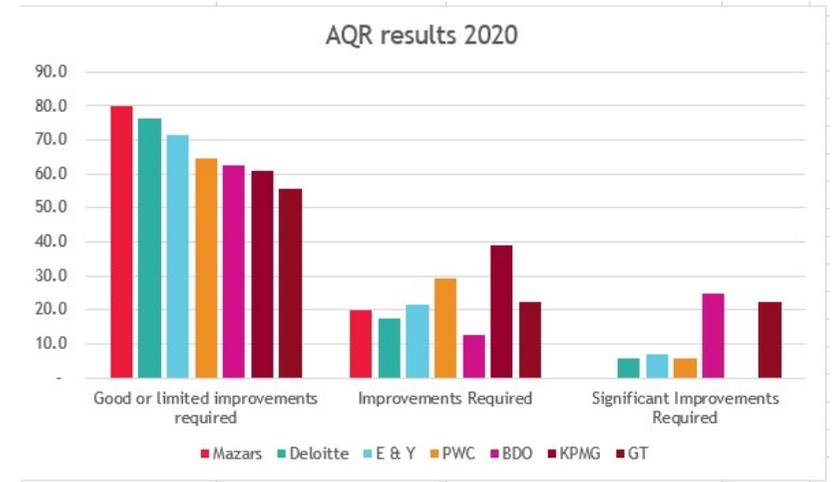
Firm's Results

The graphs demonstrates our performance in relation to the other 6 largest firms. Having topped the table for audit quality for the last two consecutive years, we are disappointed to see a decline in our results. These scores remind us we must remain committed to continuous improvements and, having carefully considered the root causes of the AQR findings, we are in the process of implementing detailed action plans where required. We have made a number of enhancements to our Audit Quality Plan to address these issues to drive our key focus of a continuous improvement in audit quality including highlighting how we will make changes to our root cause analysis process which plays a key role.

We would encourage you to read our report which includes:

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

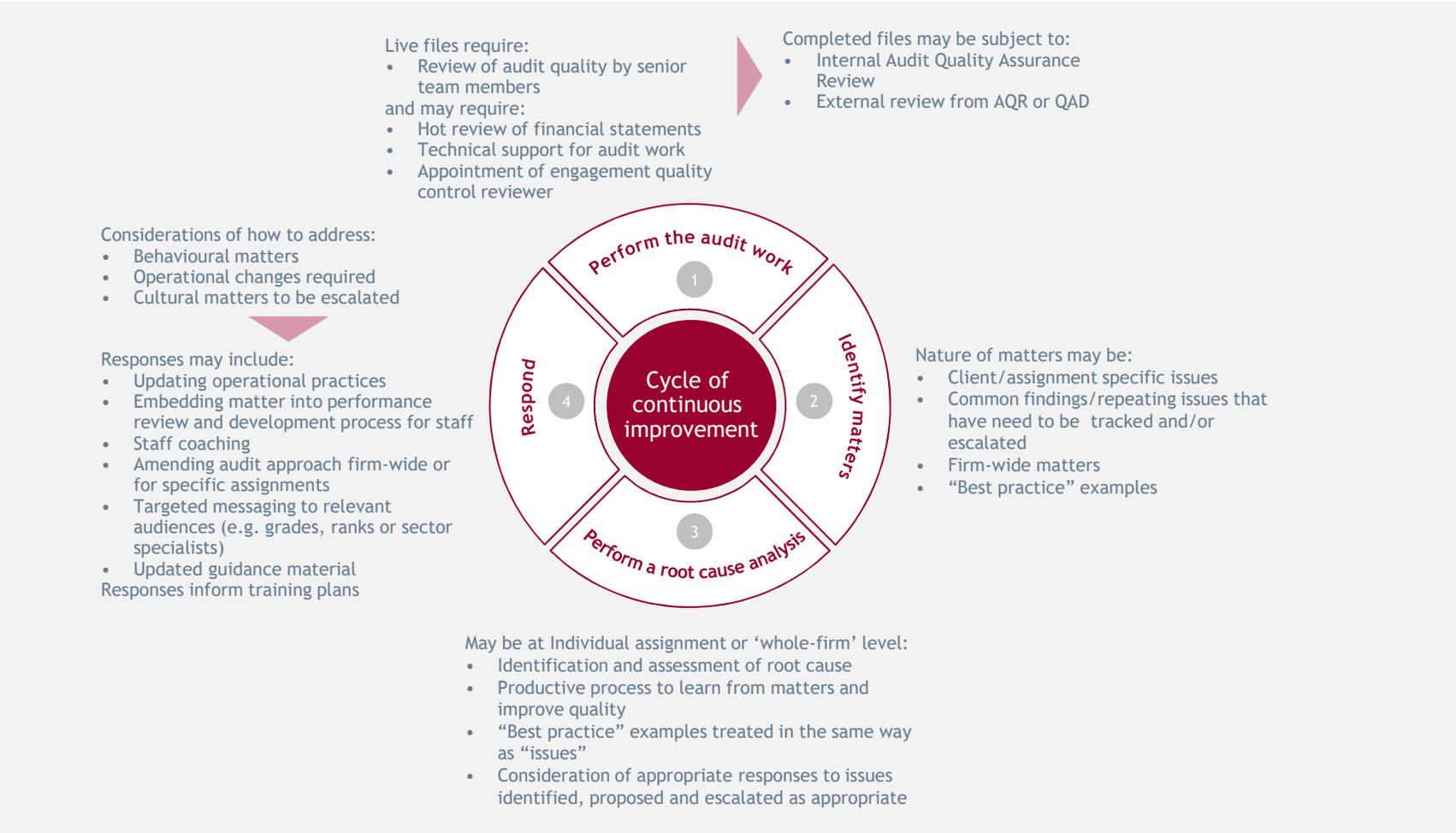
More details will be included in our Transparency Report which will be available on our www.bdo.co.uk



AQR RESULTS 2019/20 2

BDO Performance

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence: Team Member Rotation
Materiality: Definition and application
AQR Results 2019/20
Latest regulatory developments
FRC Ethical standard



LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

A number of corporate governance, financial reporting and audit failures since the ‘financial crises’ have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	‘Carillion’ report issued 5/2018	‘Future of audit’ report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report ‘Statutory Audit Services Market Study’	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
‘Report of the Independent Review in to the quality and Effectiveness of Audit’ - Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
‘Independent Review of the FRC’ by Sir John Kingman	Kingman Report published - 83 recommendations 18/12/2018	Secretary of State announces plans for a new regulator (ARGA) 11/3/2019	48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019			Further consultations expected in 2020

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence: Team Member Rotation

Materiality: Definition and application

AQR Results 2019/20

Latest regulatory developments

FRC Ethical standard

LATEST REGULATORY DEVELOPMENTS 2

Continued

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence: Team Member Rotation
Materiality: Definition and application
AQR Results 2019/20
Latest regulatory developments
FRC Ethical standard

Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC - requested by the Secretary of State	<ul style="list-style-type: none"> Highlighted deficiencies in FRC and its operating effectiveness New regulator to replace FRC 'Audit, Reporting and Governance Authority' Reconsideration of which entities are classed as 'public interest' <p>A number of changes require legislation changes but the FRC is working on implementation where possible.</p>
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	<p>The proposals being classed as:</p> <ul style="list-style-type: none"> FRC and BEIS will implement as soon as possible Can be implemented once considered, in advance of legislation Primary legislation required <p>Further consultations are expected and will form part of the 2020 suite of consultations undertaken.</p>
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	<p>Report 18 April 2019 - suggestions include</p> <ul style="list-style-type: none"> Increased accountability of audit committees including a focus on how they select auditors and their consideration of audit quality Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews An operational split between the audit and non audit practices of the big 4 A 5 year review of progress by the new regulator <p>Further consultations are expected and will form part of the 2020 suite of consultations undertaken.</p>

LATEST REGULATORY DEVELOPMENTS 3

Continued

CONTENTS
Agendas contents
Responsibilities
Our responsibilities
Communication with you
Independence: Team Member Rotation
Materiality: Definition and application
AQR Results 2019/20
Latest regulatory developments
FRC Ethical standard

Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' - 24 April	Consideration of 2 reports - CMA and Kingman - to ensure they will lead to coherent framework	<p>This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular:</p> <ul style="list-style-type: none"> • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGAs - deal with failures more quickly and more stringently <p>Published June 2019.</p>

LATEST REGULATORY DEVELOPMENTS 4

Brydon

In December 2019 Sir Donald Brydon published his “Report of the Independent Review in to the quality and Effectiveness of Audit” . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors’ Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGA - the new regulator.

Key considerations for Audit Firms

- A new definition of audit: “ The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”
- Recognition of other stakeholders alongside the company’s shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for ‘professional suspicion’ alongside ‘professional scepticism’;

- Replace ‘true and fair’ with ‘present fairly, in all material respects’;
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors’ statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company’s internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee Chair and the auditor.

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence: Team Member Rotation
Materiality: Definition and application
AQR Results 2019/20
Latest regulatory developments
FRC Ethical standard

LATEST REGULATORY DEVELOPMENTS 5

Redmond

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
 - an annual report being submitted to Full Council by the external auditor;
 - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
 - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence: Team Member Rotation

Materiality: Definition and application

AQR Results 2019/20

Latest regulatory developments

FRC Ethical standard

FRC ETHICAL STANDARD

Issued in December 2019

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.

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.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
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.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	<p>OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which:</p> <ul style="list-style-type: none">- Have more than 2000 employees; and / or- Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. <p>The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.</p>

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence: Team Member Rotation

Materiality: Definition and application

AQR Results 2019/20

Latest regulatory developments

FRC Ethical standard

FOR MORE INFORMATION:

Steve Bladen

Engagement Director

t: 020 3860 6563

e: steve.bladen@bdo.co.uk

Michael Asare Bediako

Audit Manager

t: 020 7893 3643

e: michael.asarebediako@bdo.co.uk

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

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

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

© 2020 BDO LLP. All rights reserved.

www.bdo.co.uk