Report to the Audit and Standards Committee

SURREY HEATH BOROUGH COUNCIL

Audit Progress Report: year ended 31 March 2020

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CONTENTS

WELCOME

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

It summarises the results of the work to date for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of management or the Audit and Standards Committee.

We will provide an update on outstanding work at the Audit and Standards Committee. At the conclusion of our audit we will issue an Audit Completion Report to the Audit and Standards Committee. This will set out the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

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

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

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

Steve Bladen

26 April 2021

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OVERVIEW

Executive summary

Overview

Our audit work is currently in progress. The matters set out in this report provide an overview of the matters identified from our audit work to date, and are the matters we believe are important to the Audit and Standards Committee in reviewing the results of our audit of the financial statements and use of resources of the Council for the year ended 31 March 2020.

The report is also intended to promote effective communication and discussion and to ensure that the findings emerging from audit appropriately incorporate input from those charged with governance.

We have set out the outstanding matters on pages 38 and 39 of our report. Subject to the successful resolution of these outstanding matters, we anticipate issuing our opinion on the Council's financial statements and the Council's use of resources for the year ended 31 March 2020 in line with the agreed timetable.

To date there have been no significant changes to the planned audit approach and no additional significant audit risks have been identified other than those risks reported to you in our Audit Planning Report dated 31 July 2020.

No restrictions have been placed on the audit work completed to date.

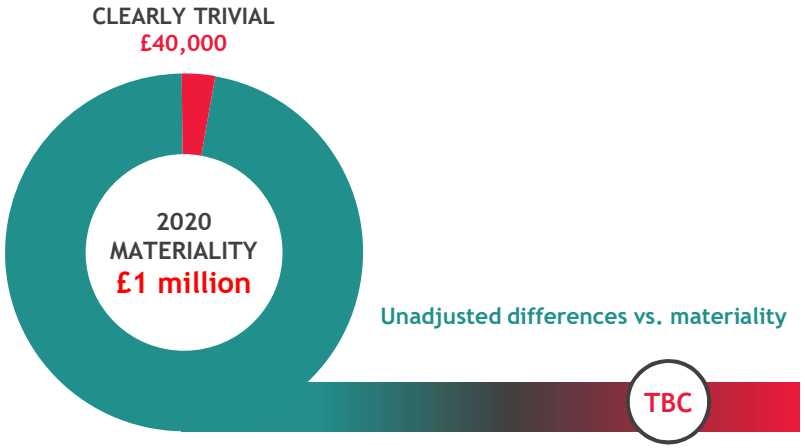
THE NUMBERS
Executive summary

Final materiality

The final materiality of £1 million was determined based on gross expenditure per the draft accounts.

Misstatements

We have identified a some issues which we are resolving with management. Upon resolution and conclusion of these issues as outlined on pages 38 and 39 we will update our final completion report to reflect the impact of these issues on the surplus/deficit on the provision of services for the year.



OTHER MATTERS
Executive summary

Financial reporting

Based on the audit work that we have completed to date, and subject to resolution of the outstanding matters identified in this report:

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

Other matters that require discussion or confirmation

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

Independence

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

CORONAVIRUS

The effects on year-end reporting and auditing

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, officers 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 officers, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern officers 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 officers 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 officers' 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 officers' 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

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 2022 (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 Cornavirus 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

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.

AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 31 July 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant management estimate or judgement	Use of experts required	Error identified	Significant control findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue and expenditure recognition	Significant	No	No	No	No	No
Valuation of non-current assets	Significant	Yes	Yes	Yes	-	Work still in progress
Valuation of pension liability	Significant	Yes	Yes	Yes	No	No
Allowance for non-collection of receivables	Significant	No	No	-	-	Work still in progress
Going concern	Significant	No	No	-	-	Work still in progress

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Risk description

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

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Work performed

To address this risk we undertook the following audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.
- In considering how the risk of management override may present itself, we considered the inappropriate capitalisation of revenue expenditure to be a risk. To address this risk we tested an increased sample of additions to non-current assets to confirm that expenditure has been classified correctly.

Results

Our audit work on journals and estimates did not identify any issues.

Our review of management estimates has not identified the existence of any systemic bias. Further commentary on significant management estimates are included on the following pages.

We did not identify any evidence to suggest unadjusted audit differences are indicative of bias or deliberate misstatement by management.

We did not identify any revenue expenditure that was capitalised.

Conclusion

Based on the work we have completed to date, we have no matters to bring to your attention.

REVENUE AND EXPENDITURE RECOGNITION

Risk description

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 focused.

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

Significant risk
Normal risk
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

Work performed

To address this risk we undertook the following audit procedures:

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

Results

Our sample testing of fees and charges as well investment property income did not identify any errors in the recognition of income.

Our audit work on grants confirmed that these were recognised when performance conditions attached to them had been satisfied.

Our expenditure cut off testing did not identify any errors in the recognition of expenditure in the correct period.

Conclusion

Based on the work we have completed to date, we have no matters to bring to your attention.

VALUATION OF NON-CURRENT ASSETS

Risk description

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.

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed accuracy and completeness of asset information provided to the valuer;
- Reviewed assumptions used by the valuer in light of the prevailing market conditions to support the valuations including any material uncertainty for classes of assets;
- Followed up valuation movements that appear unusual or outside of our expectations; and
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We confirmed the basis of valuation for assets valued in year is appropriate and in line with Code.

The results of our review of the assumptions and estimates used by the valuer for classes of assets are also reported on the following pages.

Our review of information such as lease agreement, floor sizes provided to the valuer for valuation did not identify any issues. For valuation movements outside our expectation we obtained reasonable explanations from the valuers.

The valuer reported that their valuation as at 31 March 2020 is subject to material uncertainty, in line with the RICS guidance issued to valuers, due to the impact of Covid-19 and reduced market activity.

Conclusion

The assumptions and estimates used in the valuations are reasonable although we are required to refer to the material uncertainty over valuations of classes of assets in our audit report.

VALUATION OF NON-CURRENT ASSETS 2

Significant estimate

Other land and buildings at existing use value, excluding Camberley Shopping Centre (valuation at 31 March 2020: £8.5 million)

Other land and buildings valued at existing use value have been revalued downwards by £2.8 million (-25%) in 2019/20.

The Council's other land and building comprise a mix of asset types. MCSI regional capital growth indices show regional price movements of -5.5% for retail, +0.80% for office, +3.40% for industrial, and +4.1% for houses for the period Q1 2019 to Q1 2020.

The reduction in value observed is largely attributable to a downward valuation of £2 million on the Main Square Multi Storey Car Park. This asset is valued on the profit method, and the valuer has determined the fair maintainable net profit, in the hands of the reasonably efficient operator, and applied a capitalisation multiplier of 16.67, guided by transactions of similar trading entities in the market.

We are satisfied that the valuations for other land and buildings based on Existing Use Value are reasonable.

< lower | Impact of assumptions on the estimate/judgement | higher >

VALUATION OF NON-CURRENT ASSETS 2

Significant estimate

Other land and buildings valued at existing use value: Camberley Shopping Centre (valuation at 31 March 2020: £40.1 million)

The property comprises a covered shopping centre with various street facing retail properties. The valuation has been carried out by BNP Paribas Real Estate, an international firm of surveyors with sufficient expertise and market knowledge to value an asset of this type. The valuation is subject to a material uncertainty clause ("MUC") arising from the Covid-19 pandemic. The shopping centre and properties noted below were valued at £82 million as at 31 March 2019, a reduction of £41.9 million. We have analysed the assumptions and judgements applied by the valuer in the valuation of each property below.

Shopping Centre (Valuation at 31 March 2020: £30 million)

The valuer applied the following assumptions in determining the cashflow forecast used the valuation;

- Any rent free periods that have been granted;
- Assumptions on how long it would take to identify a new tenant for vacant accommodation and the terms of any new lease;
- For leases which are due to end within the next 5 years an assumption that the accommodation would become vacant or that the existing tenant will receive a rent free incentive in return for entering into a new lease;
- Any known capital expenditure that has been programmed (such as £4m assumed for improvements to the entrance); and
- A shortfall on recovery of service charge due to units being vacant or service charges being capped.

Yields are then applied to the individual income streams. These are based on the market perception of the strength of tenant covenant. These range from 6% for the Sainsbury supermarket to 8.25% for some of the smaller tenants. 5% has been applied to the residential incomes. The overall equivalent yield is 8.51%. Benchmark data puts equivalent yields for sub-regional shopping centres at 7.5% - 7.75% (successful) and 9% - 9.25% ("challenged"). We therefore consider the yield adopted by the valuer to be reasonable based on benchmark data.

30-54 High Street and Grace Reynolds Walk (Valuation at 31 March 2020: £5.75 million)

This has been valued on a similar methodology to the shopping centre but generally uses higher yields reflecting the more secondary nature of the property The yields adopted by the Council's valuer range between 8.75% - 10%, with an overall equivalent yield of 9.69. We consider the yield adopted by the valuer to be reasonable based on benchmark data.

7-21 Park Street and Obelisk Way (31/03/2020 £1.150 million)

This is a relatively small property occupied by local tenants. The equivalent yield is 11.46%. Given the lease terms, we consider the yield adopted by the valuer to be reasonable based on benchmark data.

VALUATION OF NON-CURRENT ASSETS 3

Significant estimate

Other land and buildings valued at existing use value: Camberley Shopping Centre (valuation at 31 March 2020: £40.1 million)

London Road (Valuation at 31 March 2020: £0.825 million)

This property has been valued off yields of 8% even although most of the tenants are local companies. The overall equivalent yield is 9.5%.

We challenged the valuer on the hierarchy in value between the various schemes to justify the yields that have been adopted. The valuer noted that the net initial yield (NIY) for comparable shopping centre transactions ranged between 5.75% and 9%. The valuers considered the most relevant comparatives for the covered shopping centre at the subject property to be The Elmsleigh Centre in Staines (8.8% NIY) and The Galleries in Bristol (9% NIY). The NIY adopted for this property is lower than these comparatives, but reflects that a permanent void has been adopted for this part of the property in the valuation. Comparable High Street shopping parade transactions ranged from 6% - 8.5% NIY. The High Street and Grace Reynolds Walk are considered to be superior to Park Street and Obelisk Way, hence the lower cap rates adopted and thus the lower NIY and equivalent yield. The NIY's for both these pitches are higher than the Bristol comparable (8.1% NIY) to reflect the inferior tenant line-ups and trading positions. The London Road pitch was considered to be the poorest pitch and whilst the NIY is the lowest at 6.4% this reflects an element of hope value (for large scale redevelopment) attributed to this part of the property.

Allders department store (Valuation at 31 March 2020: £1.175 million)

This property has been valued on a residual basis assuming a residential scheme (The valuer determined the completed value of the actual / estimated scheme [gross development value] from which deductions are made including development costs, fees, financing and developer's profit to arrive at the residual amount). The value of the assumed new flats are within a range we would anticipate and are supported by evidence cited in the valuation report; the costs assumed are in line with our expectation based on similar developments. The site does not have planning consent and therefore any conditions that might be attached to a planning consent have been estimated. Given the uncertainty attached to the project the level of developers profit assumed (17.5%) is significantly lower than would be considered a reasonable range. The usual metric for profit on cost for speculative residential developments is 20%; for a scheme without planning consent this discount could be as high as 25%.

45-51 Park Street (House of Fraser redevelopment) (Valuation at 31 March 2020: £1.2 million)

This property has also been valued on a residual basis assuming a largely retail scheme. The value of the assumed new units are within a range we would anticipate and are supported by evidence cited in the valuation report; the costs assumed are in line with our expectation based on similar developments. The site does not have planning consent and therefore any conditions that might be attached to a planning consent have again been estimated. Given the uncertainty attached to the project the level of developers profit assumed (17.5%) is significantly lower than would be considered a reasonable range. The usual metric for profit on cost for speculative retail developments is 15% -17.5%; for a scheme without planning consent this discount would be in excess of 20%.

VALUATION OF NON-CURRENT ASSETS 4

Significant estimate

Other land and buildings valued at existing use value: Camberley Shopping Centre (valuation at 31 March 2020: £40.1 million)

We have challenged the Council's valuer on the developers profit assumptions adopted in the valuation of both the Allders department store and the Park Street. We are awaiting response from the valuer. Subject to resolution of our query on these assumptions, we consider the valuation adopted by the Council for the shopping centre and the parade of retail shops surrounding the shopping centre is within a reasonable range.

< lower | Impact of assumptions on the estimate/judgement | higher >

Investment properties valued at fair value (valuation at 31 March 2020: £83 million)

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

Investment property valued in year was £83 million. Investment property has seen a decrease in valuation of £2 million (2%). MCSI regional capital growth indices show regional price movements of -5.5% for retail, +0.8% for office and +3.40% for industrial for the period Q1 2019 to Q1 2020.

We noted that the downward valuation was attributable to a decrease in the valuation of the Theta 1 office building by £1 million. We noted the office is vacant and the vacant office space is currently being marketed at £23.50 per square foot with very little interest in the office space. As such the valuer adopted a lower tone of £20 - £22 per square foot for the reversion rents.

We identified that the Council has incorrectly input the valuation value of one property by £0.211 million thereby overstating the value at year end the gain or loss in the comprehensive income and expenditure statement.

Subject to the error identified, we are satisfied the valuation of investment properties is within a reasonable range.

< lower | Impact of assumptions on the estimate/judgement | higher >

VALUATION OF NON-CURRENT ASSETS 5

Significant estimate

Buildings valued at depreciated replacement cost, including theatre and leisure centres (valuation at 31 Marc 2020: £5.5 million)

Specialised assets such as theatres and public conveniences are valued on the basis of their Depreciated Replacement Cost. This involves estimating the build cost of a modern equivalent asset to which adjustments are made for physical, economic and functional obsolescence and external environmental factors. The Council valued seven of its specialised assets, including six public conveniences, and the Camberley Theatre. The valuation of these assets increase by £0.3 million, £5.2 million to £5.5 million (6%).

The theatre valuation increased by 6% from £4.8 million to £5.1 million. BCIS Public Sector TPI index suggests that the rebuild costs remains unchanged between Q1 2019 and Q1 2020 when based on national indices. However, we note that the valuer has used appropriate tender rebuild prices provided by RICS with a location cost adjustment, using an appropriate rebuild cost per square foot for each type of property. We are therefore satisfied that the valuation for other land and buildings when based on depreciated replacement cost are within a reasonable range.

< lower | Impact of assumptions on the estimate/judgement | higher >

Surplus assets at fair value (£1 million revalued in year)

Surplus assets are valued at fair value (highest and best use) by reference to similar sales and potentially including an increase where the purchaser may be able to amend the consents for use and increase the value of the asset.

Surplus assets have seen an overall revaluation decrease of £36,500 (4%) from £997,900 to £961,400. This compares with the 5% decrease per MSCI sector capital value index for all property.

We are therefore satisfied that the valuation of surplus assets is within a reasonable range.

< lower | Impact of assumptions on the estimate/judgement | higher >

PENSION LIABILITY VALUATION

Risk description

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

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

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.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures in accounts to information provided by the actuary
- Reviewed the competence of the management expert (actuary);
- Reviewed the controls in place for providing accurate membership data to the actuary and testing the data provided at the triennial valuation through our audit of the pension fund;
- Checked that any significant changes in membership data since the triennial submission have been communicated to the actuary;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate
- Assessed how the actuary has addressed recent discrimination cases in the liability calculation; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.
- Discussed with management steps have taken to assess the impact of the recent volatility in global stock markets on the Council's pension fund liability

Results

Our review of the competence of the actuary did not identify any issues. Our review of the pension -related disclosures in the Statement of Accounts did not identify any issues.

PENSION LIABILITY VALUATION 2

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

Results (continued)

The Pension fund auditor confirmed that the pension fund performed a data cleanse activity ahead of the valuation cycle, which included pensioner/deferred member existence testing and member tracing. The exercise allowed for identification of any addresses not matched on the current system, and ensured that deferred members are marked as having left.

Management confirmed that there are no significant changes in membership and this is consistent with our knowledge of the Council.

We identified that the actuary estimated a loss on investment of 10.7% compared to an actual loss of 11%, resulting in an overstatement of the Council's share of the scheme's assets by £0.248 million, and understatement of the net pension liability by £0.248 million.

The following discrimination cases covering GMP gender equality, McCloud age discrimination and Goodwin spousal pensions are currently subject to remedy action that is likely to impact on liability to pay future pensions.

GMP

The actuary has applied full GMP indexation for members at state pension age. This is consistent with all other local government actuaries. In the prior year the actuary included an allowance of £0.413 million in the past service cost for GMP. Actuary noted that GMP has been included as other comprehensive income in this year's account, updating the figure of 0.413 million from the previous year.

McCloud

The Government's consultation document suggests that members in the scheme at 2012 will qualify for the scheme amendments. Based on a review of actuaries IAS19 reports undertaken by PwC, we note that the liability calculated by Hymans was estimated to cover members who joined the scheme after 2012 suggesting Hyman's was quite prudent on what remediation might cover and included members who joined after 2012. In the prior year the actuary estimated the impact of McCloud to be £0.183 million and included this as past service cost in the accounts. The actuary noted that they have revised the prior year estimate and determined the impact of McCloud to be approximately 0.2% of liabilities which is £0.236 million and included this as other comprehensive income in the accounts. The revised estimate was slightly higher than the allowance made at March 2019 as the updated figure was based on updated employer data from the 2019 valuation. We have sought confirmation from the actuary of the possible overstatement of the updated liability based on Government consultation that only members in the scheme at 2012 will quality for the scheme amendments.

PENSION LIABILITY VALUATION 3

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

Results (continued)

Goodwin

In July, HM Treasury announced that it would be amending the Teachers' Pension scheme to remove the differential in survivor pensions for same sex marriage or civil partnerships following the Goodwin case, and that this will also apply to other public sector pension schemes. The actuary confirmed no allowance was made for the impact of the Goodwin case however based on their high level analysis of LGPS, the Goodwin judgement only affects a small proportion of scheme members, with an average impact of 0.1% of liabilities. Based on this we have estimated pension liability to be understated by £0.118 million for the Council.

The results of our review of the reasonableness of the assumptions used in the calculation against other local government actuaries and observable data is reported on the following page.

Conclusion

The defined benefit obligation has been appropriately calculated and the assumptions used are reasonable, although the net liability had not been updated to reflect the impact of actual return on assets and no additional liability has been included following the Goodwin legal case.

PENSION LIABILITY VALUATION 4

Significant estimate – LGPS pension liabilities

Council pension liabilities £115.106 million funded LGPS and £2.961 million unfunded promised retirement benefits

< lower **Impact of assumptions on the estimate** **higher >**

The Council's pension liability has decreased from £126.985 million to £118.067 million and it's share of the scheme assets decreased from £80.916 million to £73.263 million. The net deficit decreased by £1.265 million to £44.804 million. The reduction in the liability includes £9.114 million savings from changes to financial assumptions such as reduced annual pension increases at 1.9% (previously 2.5%) offset by a fall in the rate of discounting scheme liabilities to 2.3% (previously 2.4%); £2.894 million savings from demographic assumptions and reduced longevity of members; and £0.733 million reduction from updates to membership information from the 2019 triennial update. The share of scheme assets has reduced by £7.286 million due to falling investment values in the pension fund.

The key estimates are the following financial and mortality assumptions. We have compared the key financial and demographic assumptions used to an acceptable range provided by our a consulting actuary.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	2.90%	2.7 - 2.90%	Reasonable
- CPI / pensions	1.90%	1.8 - 2.00%	Reasonable
- Salary increase	2.80%	1.8 – 2.90%	Reasonable - short term assumption of lower rate and increasing long term assumption
- Discount rate	2.30%	2.30%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	22.9 years	21.6 - 23.3	Reasonable
- Female current	25.7 years	24.6 - 26.3	Reasonable
- Male retired	22.1 years	20.5 - 22.2	Reasonable
- Female retired	24.3 years	22.9 - 24.3	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range. Our actuary has provided an estimate of the overall strength of assumptions and this indicates that the estimate has tended towards a slightly prudent (higher) liability mainly due to using the CMI 2018 mortality gains rather than the latest available CMI 2019 tables.

ALLOWANCE FOR NON COLLECTION OF RECEIVABLES

Risk description

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.

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

Significant risk	■
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Work performed

We carried out the following planned audit procedures:

For significant income streams and receivables and debt balances, we have reviewed 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 hand has been accurately extracted from underlying IT systems.

Results

Our audit work is still in progress however we identified that the Council has applied the historical default rates (incurred losses) using system data to determine the credit losses on trade receivables within the scope of IFRS 9, but has not updated this to reflect expected (future) credit losses. However, this is unlikely to result in a material difference in the amount of credit losses recognised. The disclosures around forward looking information used, the use of the simplified approach and the type of debtors this has been applied to should also be improved.

Our review of the appropriateness of the allowance for non-collection of receivables is noted on the following pages.

Conclusion

We have not yet completed our audit work on allowance for non collection of receivables and we will update our results in the final completion report.

ALLOWANCE FOR NON COLLECTION OF RECEIVABLES

Significant estimate – allowance for credit losses

Gross receivables £20.229 million and total credit loss allowance £0.906 million

< lower **Impact of assumptions on the estimate** **higher >**

Council tax arrears

The Council has recognised an allowance for the non-collection of its share of the council tax arrears. The credit loss allowance is estimated using recovery rates achieved for aged arrears in recent years. Our checks to ensure that the data used to calculate collection rates for arrears is correct and the provisioning rates have been correctly applied to aged debt at 31 March 2020 is still in progress.

We will conclude on the results of our work on this estimate in our Audit Completion Report.

Non-Domestic Rate arrears

The Council has recognised an allowance for non-collection of its share of the Non-Domestic Rate arrears. The provision has been estimated using historic collection rate. Our checks to ensure that the data used to calculate collection rates for arrears is correct and the provisioning rates have been correctly applied to aged debt at 31 March 2020 is still in progress.

We will conclude on the results of our work on this estimate in our Audit Completion Report.

Housing benefits overpayment debt (£0.540 million)

The Council has recognised an allowance of £0.440 million for non-collection of housing benefit overpayment on total debt of £0.540 million. We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

Sundry receivables (£10.773 million)

Sundry receivables includes £6.894 million related to year end accruals. We have asked management to provide us with their review of these debtors including post year end receipts to confirm the recoverability of accrued debtors.

An expected credit loss allowance of £0.553 million has been provided against the remaining £3.979 million of sundry receivables based on historical collection rate. Our work is still on going to establish the reasonableness of the provision against the outstanding debt balance at year end.

Rents arrears (£0.995 million)

We have noted that no allowance was made for non collection of rent arrears and we have asked management to provide us with their assessment of why there is no credit risk over rent arrears at year end.

We will conclude on the results of our work on this estimate in our Audit Completion Report.

GOING CONCERN

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.

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
Significant management estimate or judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

Planned audit approach

We carried out the following planned audit procedures:

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

Results

Our work on going concern is still in progress however work to date shows management's assessment of cash flows and its financial position supports the going concern basis of preparation of the financial statements. The Council has access to significant cash balances to support on going spending commitments and loss of income arising from Covid-19. Additional information on financial sustainability is included later in the report to support the use of resources assessment.

Conclusion

Based on the work we have done to date management's cash flow forecasts and budgets we concur that there are no material uncertainties to the going concern of the Council.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

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

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.

We did not identify and significant matters in connection with related parties.

Laws and regulations

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

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

REPORTING ON OTHER INFORMATION

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

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

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of financial statements.

OVERVIEW

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

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

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

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

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

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	Based on the work we have completed to date, we have not identified any matters to bring to your attention. We will update our assessment in our Audit Completion Report.
Financial statement preparation	Informed decision making	Significant	

SUSTAINABLE FINANCES

Risk description

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 Medium Term Financial Strategy at the time the audit plan was drafted identified 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.

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	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	

Work performed

We carried out the following planned audit procedures:

- Reviewed 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;
- Reviewed the assumptions within the Council's Medium Term Financial Strategy (MTFS), including the reasonableness of the cost pressures and income assumptions; and
- Tested 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.

Results

Our use of resource work is still in progress however the work we have done to date shows that the Council's updated MTFS shows funding gap of £6.3 million over the MTFS period to 2026, largely as a result of a reduction in commercial property income and the end of the Government's New Homes Bonus scheme. For 2021 the MTFS identifies a budget gap of £1.5 million with a one of savings proposal of £1.088 million and use of reserves to close the gap. Although the levels of reserves expected to be used to fund the budget gap in 2021 is not significant in comparison with the overall levels of reserves it is important that reserves are protected and not be seen as the fall back option for overspends and budget pressures. The key assumptions built into the MTFS include:

- An increase in Council Tax in each year of £5.00 at Band D (the maximum allowed under legislation without holding a local referendum);
- Annual increase in the Council Tax base of 0.4% (the national baseline for housing growth);
- Business rate growth of 2.0% per annum (Government inflation target over the medium-term).
- New Home Bonus to end after 2021/22.

Conclusion

Based on the work to date the Council has a good understanding of the budget requirement in the coming years and has arrangements in place to identify and manage the delivery of required savings. We will update our findings in our Audit Completion Report.

FINANCIAL STATEMENT PREPARATION

Risk description

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

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	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings to be reported	

Work performed

We carried out the following planned audit procedures:

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

Results

Our audit work is still in progress and we will comment fully on the effectiveness of the actions taken by the Council to secure improvements in the preparation and presentation of the 2019/20 financial statements in our Audit Completion Report. We have noted some improvement in some of the working papers, however others, such as bank and cash and provision for doubtful debt working papers still require improvements. We have also experienced delays in obtaining audit evidence in some of the areas such as collection fund. We acknowledge, however, the challenges faced by the Council of remote working, and the impact of Covid-19 on the ability to respond to our requests.

Conclusion

Our audit work is still in progress. We will update committee members in our Audit Completion Report on the effectiveness of the Council's actions to address the issues around the presentation and preparation of financial statements and supporting working papers.

INDEPENDENCE

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

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 on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit and Standards Committee in advance in accordance with the Council's policy on this matter.

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

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

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

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

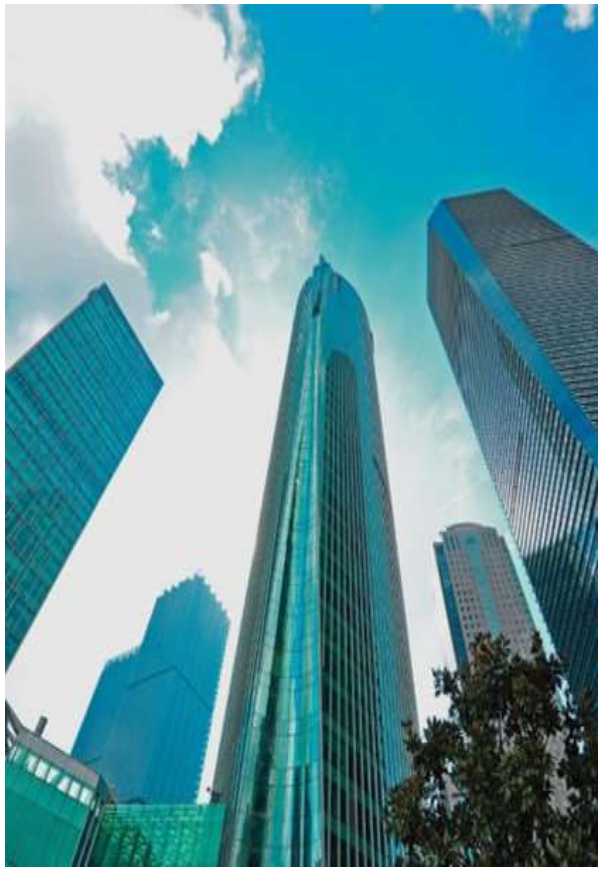
Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee	**35,347**	**55,347**	**83,575**
• Code audit fee: financial statements and use of resources	35,347	35,347	35,347
• Additional fees	(2) TBC	(1) 20,000	48,228
Non-audit assurance services	**TBC**	**14,000**	**11,500**
• Housing benefit	TBC	14,000	10,000
• Housing benefit additional fees	TBC	-	1,500
Total fees	**TBC**	**69,347**	**95,075**

(1) In our audit plan, we proposed a fee variation to the PSAA scale fee for 2019/20 and discussed this with the Council's Finance staff and the Audit Committee. This reflects the additional audit work required in response to issues encountered in recent years and significantly greater pressure on auditors to deliver higher quality audits and to demonstrate greater professional scepticism when carrying out their work.

(2) Upon completion of the audit we will discuss final overrun costs with the Director of Finance and report this to you.



APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

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

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

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

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

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit 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.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	The audit has been very challenging as a result of the Covid-19 lockdown. This has meant that staff on both sides are often remote working and therefore the face to face communication/ review of files has not been possible resulting in increased time being
2	Written representations which we seek.	We will include a copy of our letter of representation in our Audit Completion Report.
3	Any fraud or suspected fraud issues.	Based on the work we have completed to date, we have no matters to bring to your attention.
4	Any suspected non-compliance with laws or regulations.	Based on the work we have completed to date, we have no matters to bring to your attention.
5	Significant matters in connection with related parties.	Based on the work we have completed to date, we have no matters to bring to your attention.

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

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

Communication, meetings and feedback

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

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

Communication	Date (to be) communicated	To whom
Audit Planning Report	31 July 2020	Audit and Standards Committee
Audit progress report	26 April 2021	Audit and Standards Committee
Audit completion report	TBC	Audit and Standards Committee
Annual Audit Letter	TBC	Audit and Standards Committee

POTENTIAL ISSUES TO RESOLVE WITH MANAGEMENT

We have identified the following issues in our audit work to date. We are currently in the process of resolving with management. We will update our Audit Completion Report to reflect the conclusion of these issues.

- We noted that JPUT bank balance at year end per our independent confirmation of the bank balance shows a balance of £1.805 million. However, the bank analysis provided for audit and which agrees to the trial balance and the Statement of Accounts shows a JPUT bank balance of £3.787 million resulting in a difference of £1.98 million.
- A prior year audit journal of £2.7 million relating to the Statement of Financial Position has been rolled into the comprehensive income and expenditure statement (CI&ES).
- Inconsistencies between government grants disclosed in notes 15 and 20 to the Statement of Accounts.
- We identified that £3.7 million of expenditure was netted off against income of £5.2m and as presented a net amount of £1.5 million in the finance and investment income and expenditure in the CI&ES. This should be reported on gross basis. The current accounting results in understatement of income and expenditure in the finance and investment income and expenditure in the CI&ES.
- We also noted that gains of £1.377 million relating to investment property valuations was not recognised in the finance and investment income and expenditure in the CI&ES
- The accounts do not show that there was any transfer of assets under construction to any of the asset class. However, asset records show Macquire drive was completed in Jan 2020 and brought into use and therefore should have been reclassified from AOU.
- We identified two assets from the prior year asset register that were not included in the 2019/20 asset register suggesting they have been disposed of or written off. However, the property, plant and equipment (PPE) note to the Statement of Accounts shows there was no disposal of PPE or investment property during the year.
- Doubtful debt provision of £906,000 per the debtors note in the account doesn't include doubtful debt allowance for collection fund arrears.
- No doubtful debt allowance was raised against £6.4 million of debtor accruals or £0.955 million of rent debtors. Management have been requested to provide evidence including after date receipts to confirm debt is recoverable.

OUTSTANDING REQUEST

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

- Outstanding samples for discretionary business rate reliefs
- Outstanding samples for charitable occupation business rate reliefs
- Outstanding queries on cash flow statements
- Outstanding payroll contracts
- Outstanding council tax samples for exemptions and discounts
- Outstanding queries on reconciliation differences between trial balance and accounts
- IT review queries on the collection fund system
- IT review queries on the payroll system
- Outstanding queries on whether there is a report of random checks completed on housing benefit claims
- Outstanding queries on housing benefit claims tested as part of accounts audit work
- Outstanding request for management workings on business rate and council tax income recorded in the income statement
- Outstanding query on £2 million difference between gross business rates per the collection fund system and the gross rate recorded in the accounts
- Outstanding bank receipts and other evidence to support the recognition of rental income
- Completion of technical and quality reviews by BDO Engagement Lead
- Review of final draft accounts

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

LATEST REGULATORY DEVELOPMENTS 2

Continued

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	• 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' A number of changes require legislation changes but the FRC is working on implementation where possible.
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	The proposals being classed as: • FRC and BEIS will implement as soon as possible • Can be implemented once considered, in advance of legislation • Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	Report 18 April 2019 – suggestions include • 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 Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

LATEST REGULATORY DEVELOPMENTS 3

Continued

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	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular: • 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 ARGA - deal with failures more quickly and more stringently Published June 2019.

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.

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.

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 transitionary 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')	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 *SME listed entity* - 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: – 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. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

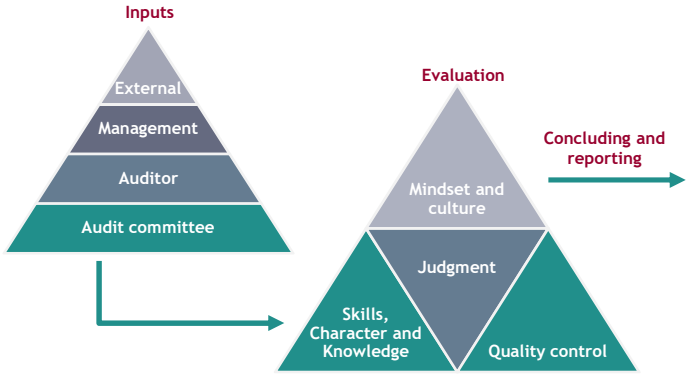
FRC PRACTICE AID FOR AUDIT COMMITTEES

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the **FRC website**. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the **FRC website**.

AUDIT QUALITY

BDO is totally committed to audit quality

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

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

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

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

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

FOR MORE INFORMATION:

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

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