

Notice of Meeting

**AUDIT AND STANDARDS COMMITTEE
SUPPLEMENTARY AGENDA**

**Monday, 7 March 2022 - 7:00 pm
Council Chamber, Town Hall, Barking**

Members: Cllr Princess Bright (Chair); Cllr Adegboyega Oluwole (Deputy Chair); Cllr Dorothy Akwaboah, Cllr Simon Bremner, Cllr Josie Channer, Cllr Irma Freeborn, Cllr Mohammed Khan and Cllr Giasuddin Miah

By Invitation: Cllr Dominic Twomey, Lisa Clampin, Suzi Wiseman, Satinder Jas and Ross Beard

Date of publication: 4 March 2022

Claire Symonds
Chief Executive

Contact Officer: Yusuf Olow
Tel. 020 8227 7919
E-mail: yusuf.olow@lbbd.gov.uk

Please note that this meeting will be webcast and members of the press and public are encouraged to view the proceedings via this method. Those wishing to attend the meeting in person must provide evidence of a negative Lateral Flow Test on arrival and are encouraged to wear a face mask at all times, including while seated in the public gallery on the second floor of the Town Hall. To view the webcast click [here](#) and select the relevant meeting (the weblink will be available at least 24-hours before the meeting).

AGENDA

- (i) Interim Audit Completion Report

This page is intentionally left blank

ASSEMBLY**Monday 7th March 2022**

Title: Interim Audit Completion Report 2019/2020	
Report of the Chief Financial Officer	
Open Report	For Information
Wards Affected: All	Key Decision: No
Report Author: Satinder Jas, Senior Audit Manager, BDO	Contact Details: Tel 020 7893 2586 Satinder.Jas@bdo.co.uk
Accountable Director: Philip Gregory, Chief Financial Officer	
Summary The Local Audit and Accountability Act 2014 sets out the framework for local authorities. The Interim Audit Completion Report was undertaken in accordance with this framework to enable the Council to fulfil its statutory duties under the 2014 Act.	
Recommendation The Assembly is asked to note the interim report.	
Reason(s) It is good practice for the Audit and Standards Committee to be provided with the draft report before it is finalised to enable Committee members to scrutinize the report.	

Public Background Papers Used in the Preparation of the Report:**None****List of Appendices:** Interim Audit Completion Report 2019/2020

This page is intentionally left blank

Report to the Audit and Standards Committee

LONDON BOROUGH OF BARKING AND DAGENHAM

Interim audit completion report: year ended 31 March 2020

IDEAS | PEOPLE | TRUST



CONTENTS

1	Introduction	3
	Welcome	3
2	Executive summary	4
	Overview	4
	The numbers	5
	Other matters	6
	Audit risks overview	7
	Audit risks overview continued	8
3	Significant risks	9
	Management override of controls	9
	Revenue recognition	10
	Expenditure cut-off	11
	Valuation of non-current assets and investment property	12
	Valuation of pension liability	17
	Group accounts	20
	Property Plant and Equipment Additions	21
	Assets under construction	22
	Debtors	23
	Creditors	24
	Allowance for receivables	25
	Going concern	26
	Non current asset disposals	27
	REFCUS	28
	Other matters	29
	Matters requiring additional consideration	30
4	Audit differences	31
	Unadjusted audit differences: Summary	31
	Unadjusted audit differences: Detail	32

	Adjusted audit differences: Summary	36
	Adjusted audit differences: Detail	37
	Adjusted disclosure omissions and improvements	41
5	Other reporting matters	42
	Reporting on other information	42
6	Use of resources	43
	Use of resources overview	43
	Sustainable finances (use of resources)	44
7	Control environment	46
	Significant deficiencies	46
	Follow up of prior year deficiencies	50
8	Audit Report	53
	Audit report overview	53
9	Independence and fees	54
	Independence	54
	Fees	55
10	Appendices contents	56

WELCOME

Contents

Introduction

Welcome

Executive summary

Significant risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit Report

Independence and fees

Appendices contents

We have pleasure in presenting our Audit Completion 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 our work to date in completing the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of our audit of the financial statements 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.

We look forward to discussing these matters with you at the Audit and Standards Committee meeting and to receiving your input.

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 during the audit.

Lisa Blake

03 March 2022



Lisa Blake
Engagement Lead

t: 01473 320716
m: 07791 397160
e: Lisa.Blake@bdo.co.uk



Satinder Jas
Senior Audit Manager

t: 020 7893 2586
m: 07971 716 511
e: Satinder.Jas@bdo.co.uk



Ash Ahmed
Audit Assistant Manager

m: 07500 828 730
e: Ash.Ahmed@bdo.co.uk



Dipesh Patel
Audit Senior

m: 07584 220 309
e: Dipesh.x.Patel@bdo.co.uk

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. 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.

OVERVIEW

Executive summary

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Audit risks overview
Audit risks overview continued
Significant risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

This summary provides an overview of the audit matters identified from the work completed to date that we believe are important to the Audit and Standards Committee in reviewing the results of the financial statements of the Group for the year ended 31 March 2020.

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

We expect to issue a final version of this report on the date we issue our audit report on the Statement of Accounts.



Overview

Our audit work on the financial statements is substantially complete, with outstanding matters listed on page 65 in the appendices.

We aim to issue our opinion on the Group's financial statements and the Council's use of resources in March 2022, although this is dependent upon resolution of some technical accounting issues covered later in this report. One of these issues relates to the accounting treatment applied to infrastructure assets, which is a sector-wide issue that could materially impact the Council's financial statements (see page 13).

We presented our Audit Planning Report to the Audit and Standards Committee in January 2021. There have been no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

The form of the audit report will be determined on completion of the remaining fieldwork and once Partner and Quality Reviewer reviews have been completed.

At this stage we have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources, although the fieldwork is currently undergoing final review.

Our audit certificate will be issued when we have issued our audit opinion and completed the outstanding work.

THE NUMBERS

Executive summary

- Contents
- Introduction
- Executive summary
- Overview
- The numbers
- Other matters
- Audit risks overview
- Audit risks overview continued
- Significant risks
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Audit Report
- Independence and fees
- Appendices contents

Final materiality

Group and Council materiality was determined based on benchmark of 1.4% of gross expenditure.

Group materiality was determined at £13.5 million. We have increased our single entity materiality from £12.5 million to £12.7 million as a result of an increase in expenditure.

Material misstatements

Our audit identified the following material misstatements to date, all of which will be corrected by management:

- Other land and buildings were overstated by £27.4m due to double counting of assets for Hewett Road Roding Primary School and Fanshawe College.
- Reversal of £49.7m of recharges from general expenditure to support services as supporting evidence could not be provided for this.
- Reclassification of £10.7m balance with the Pension Fund from cash and cash equivalents to short term investments due to not meeting the definition for cash and cash equivalents.

We have also identified several misstatements below our materiality threshold which management has adjusted for.

The cumulative impact on the finance statements for these issues, is to reduce the deficit on the provision of services for the year by £748k and to decrease the net surplus in Total income and expenditure by £26.7m.

Unadjusted audit differences

We identified other unadjusted audit differences that, if posted, would increase the deficit on the provision of services for the year by £1.6m. We also identified audit differences relating to misclassification errors with an absolute value of £2.6m which management does not intend to adjust.

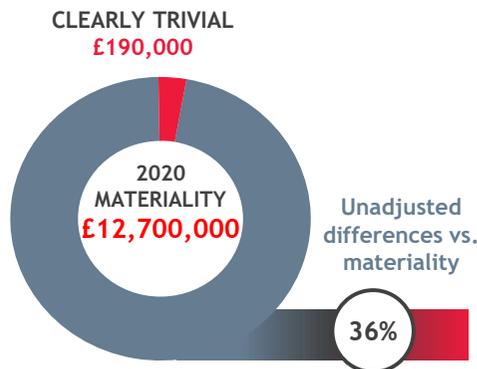
The impact of unadjusted differences in the current year and roll forward of prior year differences has resulted in an understatement of the deficit on the provision of services for 2020/21 of £4.6 million for the Council.

Audit scope

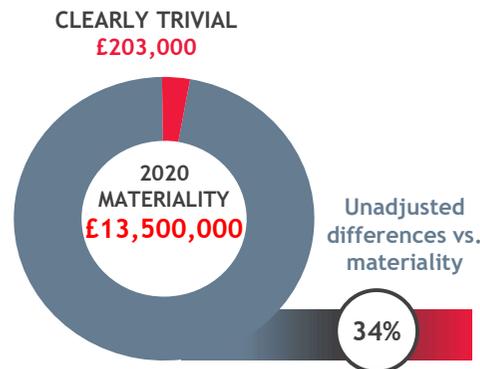
Our approach was designed to ensure we obtained the required level of assurance across the components of the group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).

We have audited the Council's financial statements under the NAO's Code of Audit Practice.

Council materiality



Group materiality



OTHER MATTERS

Executive summary

Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Audit risks overview

Audit risks overview continued

Significant risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit Report

Independence and fees

Appendices contents

Financial reporting

- We have identified non-compliance with Group accounting policies and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 in respect of classification of assets and impairment of receivables. This relates to £7.9m of HRA assets which were misclassified as Assets Under Construction in 2018/19 but should have been transferred to HRA assets. This has been transferred in 2019/20. In addition, the impairment allowance for council tax and NNDR was not based on historical collection rates which has resulted in an understatement of the NNDR provision of £2.0m.
- 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 final check of the figures within the Narrative Report to the accounts is to be completed.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

Other matters that require discussion or confirmation

- Control deficiencies identified in relation to logical access controls over the AIM cash management, Controcc, Lloyds bank, Oracle and Capita Housing systems were identified, we have raised recommendations on page 47-48.
- Updated enquiries regarding 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 and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standards.



AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 8 January 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We have subsequently included a further risk relating to non current asset disposals. 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 Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	None to date	No	No
Revenue recognition - Grants received in advance	Significant	Yes	No	Yes, unadjusted	No	No
Expenditure cut-off	Significant	No	No	Yes, unadjusted	No	No
Valuation of non-current assets	Significant	Yes	Yes	Yes, adjusted (work ongoing)	Yes	Yes
Valuation of pension liability	Significant	Yes	Yes	None to date	No	Yes
Group Accounts	Significant	Yes	No	None to date	No	No
Property, Plant and equipment: additions	Significant	No	No	Yes, unadjusted (work ongoing)	No	No
Assets under construction	Significant	No	No	Yes, unadjusted	No	No
Debtors	Significant	Yes	No	Yes, adjusted	No	Yes
Creditors	Significant	Yes	No	Yes, unadjusted	No	No

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Audit risks overview
Audit risks overview continued
Significant risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

Audit risks overview continued

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Allowance for receivables	Normal	Yes	No	Yes, adjusted	Yes	Yes
Going concern	Normal	Yes	No	No	No	Yes
Sustainable finances (use of resources)	Significant	N/A	No	No	No	No
Non current asset disposals	Significant	No	No	None to date	No	Yes
REFCUS (revenue expenditure funded from capital under statute)	Normal	No	No	No	No	No

Areas requiring your attention

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Audit risks overview
Audit risks overview continued
Significant risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

MANAGEMENT OVERRIDE OF CONTROLS

- Contents
- Introduction
- Executive summary
- Significant risks**
- Management override of controls
- Revenue recognition
- Expenditure cut-off
- Valuation of non-current assets and investment property
- Valuation of pension liability
- Group accounts
- Property Plant and Equipment Additions
- Assets under construction
- Debtors
- Creditors
- Allowance for receivables
- Going concern
- Non current asset disposals
- REFCUS
- Other matters
- Matters requiring additional consideration
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Audit Report
- Independence and fees

ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.

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

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation; determined key risk characteristics to filter the population of journals; and 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
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement
- Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.

Results

From our testing of journals chosen based on key risk characteristics we did not identify any indications of management override.

We did not identify any transactions that are outside the normal course of business of the Council.

The Council has significant accounting estimates in respect of the valuation of property, plant and equipment, investment property and valuation of the pension liability. Our findings in respect of these are reported on pages 12-15.

Our discussion on the non collection of receivables is on page 21.

Conclusion

Our audit work on journals did not identify any issues however this work is still subject to engagement lead and quality reviewer checks.

Our review of management estimates is in progress.

REVENUE RECOGNITION

For local authorities, the risks can be identified as affecting the accuracy and existence of income and expenditure

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 in respect of the accuracy and existence of non-ringfenced grant income.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of non-ring fenced grants which are subject to performance conditions to confirm that the conditions of the grant were met before the income was recognised in the CIES as well as confirm the correct classification of grants
- Testing a sample of non-ring fenced grants for existence.

Results

From our work performed on testing a sample of non-ringfenced grants we identified two issues. The first one was a classification error where a ringfenced grant of £913k had been incorrectly included within non-ringfenced grants. The second was a grant of £492k relating to 2017/18 only being recognised in 2019/20. The extrapolated error for this issue was £1.3m.

Conclusion

The Council has not amended for these misstatements. Our audit work did not identify any other issues.

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

EXPENDITURE CUT-OFF

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

Risk description

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off and existence of expenditure at year-end.

Work performed

We tested an increased sample of transactions to ensure that expenditure agrees to supporting evidence, relate to the correct period and is considered valid and appropriate.

Results

Our work identified expenditure of £205k was found to relate to 2019/20 but had been recorded in 2020/21. We are currently reviewing the impact of this error which may require extrapolation.

We also identified cut off errors through our testing on assets under construction and non current asset additions, which are detailed on pages 18 and 19.

Discussion and conclusion

The Council has not amended for this misstatement and our consideration of the outcome is ongoing.

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

Contents
Introduction
Executive summary
Significant risks
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets and investment property
Valuation of pension liability
Group accounts
Property Plant and Equipment Additions
Assets under construction
Debtors
Creditors
Allowance for receivables
Going concern
Non current asset disposals
REFCUS
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees

VALUATION OF NON-CURRENT ASSETS AND INVESTMENT PROPERTY

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

Risk description

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. There is a risk of material uncertainty over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

The Royal Institute of Chartered Surveyors (RICS) has issued guidance to valuers regarding material uncertainties in valuations due to prevailing market conditions at 31 March 2020. Valuers were encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations.

The Council's valuers are engaged to provide valuations at 31 March. There is a significant risk that the valuers will not be able to provide valuations without reporting a material uncertainty over certain classes of assets.

Work performed

We carried out the following planned audit procedures:

- Reviewed 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;

- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage
- Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and sizes
- 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 and movements against relevant indices for similar classes of assets;
- Followed up valuation movements that appear unusual
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct
- Consulted with BDO valuations team over material uncertainty over valuations of assets.

Results

Our work on valuations is still ongoing.

We reviewed the instructions to valuers and considered the valuers skills and qualifications and confirmed that they are appropriate to provide valuations for the purpose of the accounts.

We have confirmed that the valuation basis for assets valued in the year is appropriate based on their use and classification within the accounts.

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

VALUATION OF NON-CURRENT ASSETS AND INVESTMENT PROPERTY

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

Results (continued)

We identified 10 assets to date where there have been issues with the accuracy and completeness of information provided to the valuer. We await the evidence to support a further six asset valuations.

Follow up of the valuation movements between the current and prior year that appeared unusual led to identification of errors with input data used in the valuation of some assets in the previous year. Correction of this input data prior to providing it to the valuer for the purposes of the current year's valuations has generated these notable valuation movements.

The work in this area is ongoing, however, to date, we have identified one asset in other land and buildings which has been double counted leading to a material overstatement of £17.6m in the current year. Management has agreed to correct this misstatement.

In addition to above one asset was also double accounted for in prior year resulting in a £9.8m overstatement. Furthermore, we have eight assets where values are understated in the prior year by £29.0m, and three assets where values are overstated by £15.3m. This has resulted in a net understatement of £3.9m in the prior year.

We have reviewed the assumptions used by the valuer and found these to be appropriate.

Our work on confirming assets not specifically valued in the year has been assessed to ensure their reported values remain materially correct and consultation with BDO valuations team over material uncertainty remains ongoing.

Historically it has been generally accepted public sector practice for highways authorities to not write

components and/or those components which are fully depreciated from the balance sheet. This practice has recently been highlighted as contrary to the Code requirement that the carrying amount of replaced components be written out of the Balance Sheet. There are a number of reasons for the practice being adopted including; asset registers not recording infrastructure assets with sufficient level of detail to identify individual infrastructure assets or changes to them; processes which drive infrastructure spend (eg condition surveys) do not record historical information relating to previous spend.

Over time, this is likely to have resulted in a material overstatement of gross book value and accumulated depreciation and net book value may be materially overstated if infrastructure is being replaced more frequently than useful economic lives suggest.

We understand that the Council adopts this common approach to accounting for infrastructure assets. This issue has been raised nationally with the NAO and all public sector audit suppliers and will be discussed further at the Local Government Technical Network later this month.

There are brought forward unadjusted errors of £466k in respect of assets being overstated. We identified unadjusted errors totalling a net £3.4m understatement of assets in 2018/19 through our testing this year. The cumulative effect of these unadjusted errors is a £2.9m net understatement of assets.

Conclusion

Our work is currently in progress and we are reviewing the latest information received from management in the last week.

VALUATION OF NON-CURRENT ASSETS AND INVESTMENT PROPERTY

Significant estimate

Council dwellings at Open Market Value Social Housing discount value £1,193m

< lower Impact of assumptions on the estimate higher >

Our audit of the valuation is still in progress.

Council dwellings are valued at open market value and adjusted to 25% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DLUHC in 2016 for regional (London) differences between market rents and social rents. Council dwellings are generally valued using the beacon valuation method. The beacon valuation is an efficient method of arriving at a representative valuation which enables values to be attributed to larger numbers of dwellings comprising a Council's housing portfolio.

Other land and buildings at Depreciated Replacement Cost DRC £1,096m

< lower Impact of assumptions on the estimate higher >

Our assessment of the Council's valuation of other land and buildings using depreciated replacement cost is still in progress.

Council owned buildings including schools are valued using gross internal floor area and BCIS cost data adjusted for location, fees associated with replacing the asset and age and obsolescence. Those assets with land have been valued using the latest available published land values at £6.9 million per hectare. Our assessment of the assumptions used in the valuations which involved the use of specialists did not identify any issues. We compared valuation movements to expectations using the BCIS All-in TPI index which reported no change in the year and the change in location factor from 1.13 to 1.20. There were a significant number of valuations which fell outside of these expectations, and we queried these with the valuer and management to understand the reasons for the differences. These resulted in identifying the input data for several assets was incorrect resulting in a non-trivial but immaterial misstatement of other land and buildings values in both 2018/19 and 2019/20. This issue has been discussed in more detail on page 13.

Other land and buildings at Existing Use Value £125.7m

< lower Impact of assumptions on the estimate higher >

Our assessment of the valuation of other land and buildings at existing use value is still in progress.

Other land and buildings (such as car parks, parks and garages) are valued using the most appropriate market value or income method. Those assets with land have been valued using the latest available published land values at £6.9 million per hectare. We have consulted with our internal specialists over the estimated rental value, yields and land and buildings split adopted by the valuer. We did not identify any issues with assumptions used.

Contents
Introduction
Executive summary
Significant risks
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets and investment property
Valuation of pension liability
Group accounts
Property Plant and Equipment Additions
Assets under construction
Debtors
Creditors
Allowance for receivables
Going concern
Non current asset disposals
REFCUS
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees

VALUATION OF NON-CURRENT ASSETS AND INVESTMENT PROPERTY

Significant estimate

Surplus assets at fair value £25.7m

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



Our assessment of the valuation of surplus assets is ongoing.

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. We have consulted with our internal specialists over the yields and allowance for risk and uncertainty used by the valuer. We did not identify any issues with assumptions used.

Investment properties at fair value £111.1m

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



Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields.

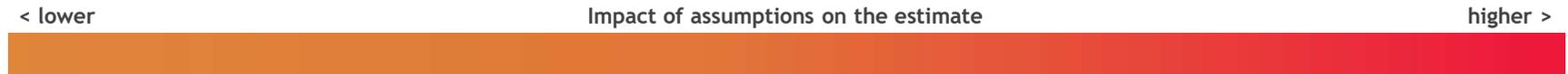
Our audit work to agree the rental income used in the valuations to the tenant leases and assessed whether the yields applied are reasonable is in progress. We have consulted with our internal specialists over the yields and allowance for risk and uncertainty used by the valuer. We did not identify any issues with assumptions used.

- Contents
- Introduction
- Executive summary
- Significant risks
- Management override of controls
- Revenue recognition
- Expenditure cut-off
- Valuation of non-current assets and investment property
- Valuation of pension liability
- Group accounts
- Property Plant and Equipment Additions
- Assets under construction
- Debtors
- Creditors
- Allowance for receivables
- Going concern
- Non current asset disposals
- REFCUS
- Other matters
- Matters requiring additional consideration
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Audit Report
- Independence and fees

VALUATION OF NON-CURRENT ASSETS AND INVESTMENT PROPERTY

Significant estimate

Investment properties at fair value £111.1m



Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields.

Our audit work to agree the rental income used in the valuations to the tenant leases and assessed whether the yields applied are reasonable is in progress.

- Contents
- Introduction
- Executive summary
- Significant risks**
- Management override of controls
- Revenue recognition
- Expenditure cut-off
- Valuation of non-current assets and investment property
- Valuation of pension liability
- Group accounts
- Property Plant and Equipment Additions
- Assets under construction
- Debtors
- Creditors
- Allowance for receivables
- Going concern
- Non current asset disposals
- REFCUS
- Other matters
- Matters requiring additional consideration
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Audit Report
- Independence and fees

VALUATION OF PENSION LIABILITY

Contents	
Introduction	
Executive summary	
Significant risks	
Management override of controls	
Revenue recognition	
Expenditure cut-off	
Valuation of non-current assets and investment property	
Valuation of pension liability	
Group accounts	
Property Plant and Equipment Additions	
Assets under construction	
Debtors	
Creditors	
Allowance for receivables	
Going concern	
Non current asset disposals	
REFCUS	
Other matters	
Matters requiring additional consideration	
Audit differences	
Other reporting matters	
Use of resources	
Control environment	
Audit Report	
Independence and fees	

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

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.

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 to the information provided by the pension fund actuary
- Reviewed the competence of the management expert (actuary)
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Reviewed the controls in place for providing accurate membership data to the actuary

- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checked that any significant changes in membership data have been communicated to the actuary following triannual valuation for LGPS.

Results

The disclosures included within the accounts have been agreed back to information provided by the actuary.

We assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor’s expert) and found no matters to note.

We have reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data and found these to be reasonable and within the expected ranges.

We confirmed that there were appropriate controls in place in relation to the provision of information from the pension fund to the actuary and that the pension fund auditor had tested these.

We have contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data and are awaiting a response.

VALUATION OF PENSION LIABILITY

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

The net pension liability valuation update carried out as at 31 March 2020 was based on the roll forward of 31 March 2019 data and various assumptions.

The work on checking that any significant changes in membership data have been communicated to the actuary following triannual valuation for LGPS is ongoing.

GMP Equalisation

The actuary has allowed for the impact of full GMP indexation in the calculation of the 31 March 2019 triennial funding valuation results. This valuation position is used as the starting point for the accounting roll forward to 31 March 2020 and therefore any increase to the obligations as a result of GMP indexation is recognised within the closing balance sheet position at 31 March 2020.

McCloud

The 2019 funding valuation liability positions, which are the starting roll forward points for the 31 March 2020 liability, do not include any estimated allowance for McCloud. This is the case because the actuary were instructed by the Scheme Advisory Board to value the liabilities at the 31 March 2019 funding valuations in line with the current LGPS Regulations benefit structure. Therefore, the 31 March 2020 valuation liability would have no estimated allowance for the expected increase in liabilities as a result of the McCloud judgement unless the actuary made a further adjustment to the 2019/20 accounting roll forward calculations.

For any employer who allowed for McCloud in 2018/19, without such an adjustment their McCloud allowance would effectively drop out of the 31 March 2020 figures. As instructed, an estimated McCloud judgement allowance has been added to the formal valuation results so the impact continues to be included within the balance sheet at 31 March 2020.

Conclusion

Our audit work has not identified any issues to date.

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

Contents
Introduction
Executive summary
Significant risks
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets and investment property
Valuation of pension liability
Group accounts
Property Plant and Equipment Additions
Assets under construction
Debtors
Creditors
Allowance for receivables
Going concern
Non current asset disposals
REFCUS
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees

VALUATION OF PENSION LIABILITY

Significant estimate - LGPS pension liabilities

Council pension liabilities £1,140m funded LGPS and £22m unfunded promised retirement benefits



The Council's pension liability has decreased from £1,332m to £1,162m and its share of the scheme assets decreased from £775m to £729m. The net deficit decreased by £124m to £433m. The decrease in the liability includes £108m from changes to financial assumptions such as decreased annual salary above CPI at 2.6% (previously 3.0%), decreased 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%); £41m from demographic assumptions due to decreased longevity of members; and £77m from experience loss due to updates to membership information. The share of scheme assets has decreased by £46m due to falling investment values in the pension fund.

We have compared the key financial and demographic assumptions used to an acceptable range provided by our consulting actuary.

	Actual used	Acceptable range	Comments
Financials:			
- CPI / pensions	1.9%	1.8 - 2.0%	Reasonable
- Salary increase	2.6%	1.8 - 2.9%	Reasonable
- Discount rate	2.3%	2.3%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	22.3 years	21.6 - 23.3	Reasonable
- Female current	24.9 years	24.6 - 26.3	Reasonable
- Male retired	21.3 years	20.5 - 22.2	Reasonable
- Female retired	23.4 years	22.9 - 24.3	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate)	CMI 2018 (Vita adjusted) 1.25% improvement rate	

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.

- Contents
- Introduction
- Executive summary
- Significant risks
- Management override of controls
- Revenue recognition
- Expenditure cut-off
- Valuation of non-current assets and investment property
- Valuation of pension liability
- Group accounts
- Property Plant and Equipment Additions
- Assets under construction
- Debtors
- Creditors
- Allowance for receivables
- Going concern
- Non current asset disposals
- REFCUS
- Other matters
- Matters requiring additional consideration
- Audit differences
- Other reporting matters
- Use of resources
- Control environment
- Audit Report
- Independence and fees

GROUP ACCOUNTS

There is a risk the Group Accounts are materially misstated due to the nature of errors noted in the group accounts from our work in the prior year audit.

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

Risk description

The Council holds interests in a number of component organisations, which in 2018/19 amounted to nine direct wholly owned subsidiaries, five indirectly wholly owned subsidiaries and a joint venture. There are other organisations in which the Council has financial and other interests, which fell out of the group boundary in 2018/19 but the Council’s control/significant influence over those organisations requires ongoing assessment.

During the 2018/19 audit significant issues were encountered with the Council’s Group consolidation, which led to a high number of adjustments across numerous versions of working papers.

Work performed

We carried out the following planned audit procedures:

- Reviewed the group boundary, including consideration of new components and changes in arrangements with existing components
- Tested the consolidation workings and consolidation adjustments
- Issued group instructions and obtain necessary assurances from component auditors
- Completed substantive procedures over any significant risks related to group components where work completed by component auditors was not sufficient
- Ensured group disclosures are complete and accurate.

Results

Our work in this area is ongoing. We reviewed the group boundary and have not noted any issues to date. We have completed substantive procedures but not identified any significant issues. We have reviewed group disclosures and identified only minor issues.

Discussion and conclusion

Our work is still in progress in this area.

PROPERTY PLANT AND EQUIPMENT ADDITIONS

There is a risk additions may be materially misstated due to the number of errors identified in our work from the prior year.

Risk description

Audit work over additions of Property, Plant and Equipment in the 2018/19 audit identified five errors where capitalised expenditure either did not agree to underlying evidence or to the amount recognised in the ledger as additions. The cumulative impact of the errors was an overstatement of capital expenditure and assets by £2.7m.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of additions to ensure additions meet capitalisation criteria
- Agreed a sample of additions to appropriate supporting evidence.

Results

Our work in this area is substantially complete, pending the outcome of a few remaining queries. We have identified one cut off error where a HRA addition relating to 2020/21 has been capitalised. The size of the error is £177k with the extrapolated error being £570k. We identified brought forward errors totalling £2.4m in the prior year where assets were overstated. The cumulative effect of the misstatements in this area is now £3.2m which is still below materiality.

Discussion and conclusion

Our work is still in progress in this area.

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

ASSETS UNDER CONSTRUCTION

There is a risk that assets under constructions may be materially misstated due to the number of errors identified in our work from the prior year.

Risk description

Audit work over Asset under Construction (AUC) identified a lack of review over completed projects included within AUC, which were not transferred to operational assets upon completion. The first misstatement was an overstatement of £31.8m relating to historic capital spend which had not been reclassified when assets became operational. This resulted in the need for a prior period adjustment to be made. The second misstatement of £527k related to an extension to a school which had not been recognised as other land and buildings once complete.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of AUC costs to ensure they are correct to remain within the AUC balance
- Tested an increased sample of AUC costs which have been reclassified to confirm they have been accurately transferred to the relevant class of non current asset.

Results

We are currently reviewing the work in this area.

Discussion and conclusion

TBC

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

Contents
Introduction
Executive summary
Significant risks
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets and investment property
Valuation of pension liability
Group accounts
Property Plant and Equipment Additions
Assets under construction
Debtors
Creditors
Allowance for receivables
Going concern
Non current asset disposals
REFCUS
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees

DEBTORS

There is a risk debtors may be materially misstated due to the significant number of errors in relation to debtor balances identified in the prior year.

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

Risk description

Audit work in the prior year identified significant issues in respect of debtors and income accruals, which included poor quality of working papers and gaps in supporting evidence.

There were 22 errors in the 2018/19 audit in relation to accruals and payments in advance which were either raised for the incorrect value or there was insufficient evidence to support the validity of the balance. The value of the errors was £19.3m overstatement of debtors. Management corrected £9.8m of this misstatement, the remaining £9.5m was noted as a projected, uncorrected misstatement.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of debtors to confirm they have supporting documentation that verifies the validity of the debt
- Tested an increased sample of accrued income to confirm judgements and estimations made are appropriately supported and consistent with Council policies
- Tested a sample of a prepayments to confirm judgements and estimations made have supporting calculations, to ensure they are consistent with Council's accounting policies.

Results

From our work performed we identified one error in relation to a debtor of £1.0m which had not been recognised in the financial statements. Management have agreed to adjust for this. We identified brought forward errors totalling £11.8m from the prior year during the 2018/19 audit relating to debtors being overstated, of which £9.5m was a projected misstatement. The impact on current year debtors is nil as the brought forward debtor is reversed.

Conclusion

Management have agreed to correct for the above misstatement. The fieldwork in this area is still subject to Partner and Quality Reviewer reviews.

Contents
Introduction
Executive summary
Significant risks
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets and investment property
Valuation of pension liability
Group accounts
Property Plant and Equipment Additions
Assets under construction
Debtors
Creditors
Allowance for receivables
Going concern
Non current asset disposals
REFCUS
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees

CREDITORS

There is a risk creditors may be materially misstated due to the significant number of errors in relation to creditor balances identified in the prior year.

Risk description

Audit work in 2018/19 identified significant issues in respect of creditors and accruals including; poor quality of supporting evidence and working papers, incorrect calculations of accruals and incorrect classifications of creditors and historically using the capital grant unapplied account (reserve) instead of capital grant receipts in advance. There were 19 errors in relation to accruals and receipts in advance, the total of these errors was calculated to be £11.1m overstatement of which management corrected £5.9m the remaining £5.6m was a projected, uncorrected misstatement.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of creditors to confirm they have supporting documentation evidencing their validity
- Tested an increased sample of accruals and receipts in advance to confirm judgements and estimations made are based on appropriate assumptions and are consistent with the Council's policies.

Results

From our work performed we identified errors resulting in a net £2.0m overstatement of the NNDR creditor, which Management have agreed to adjust for.

Conclusion

Management have agreed to correct for the above identified current year error. The fieldwork in this area is still subject to Partner and Quality Reviewer reviews.

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

ALLOWANCE FOR RECEIVABLES

There is a risk allowances for receivables are misstated due to issues identified within the processes used in the prior year.

Risk description

The Council's receivables impairment allowance is determined for each income stream using historical collection rate data. The significant provisions include council tax arrears, non-domestic rates arrears, housing benefit overpayments, housing rents arrears and car parking and trade and other receivables.

There is a risk that the provisions may not accurately reflect collection rates based on age and likelihood of recovery rates for that income stream and potential impact upon recoverability as a result of the COVID-19 pandemic.

Work performed

We carried out the following planned audit procedures:

- Reviewed the provision model for significant income streams and receivables to assess whether it appropriately reflects historical collection rates and forward looking variables by age of debt or arrears as required under expected credit losses model
- Evaluated management's considerations of the impact of collection rates due to the current pandemic.

Results

Our review of the provision models for the significant income streams identified the council tax and NNDR provisions percentages used had been arbitrarily set rather than being based on analysis of historic collection rates, which has resulted in overstatement of the NNDR provision of £2.0m.

We also identified a misstatement of £3.8m in respect of income that is not receivable in respect of court. Management have corrected for this error.

Conclusion

No further issues identified apart from those noted above.

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

GOING CONCERN

The Council are expecting to utilise a significant amount of reserves to mitigate the emerging financial pressures in 2020/21 as a result of the impact of the COVID-19 pandemic.

Risk description

A local authority cannot report on any other basis than a going concern basis as it cannot decide to liquidate itself or to cease operating as LAs throughout the UK are only created or discontinued by statutory prescription (as set out in the FRCs Practice Note (PN) 10: Audit of financial statements of public sector Bodies in the United Kingdom, 2016).

However management still have a responsibility to make an assessment of an entity's ability to continue as a going concern and provide appropriate disclosures in its financial statements relating to how that assessment was performed and its results.

The assessment of going concern under the effects of the coronavirus outbreak will need to incorporate unprecedented shocks to forecasts. The increased demand on services, decline in income from services, deferrals of normal payment terms or impairment of debt, decreases in asset values and supply chain disruptions may be dissimilar to any previously encountered 'real world' scenario, making forecasting the precise results difficult.

The effects of the coronavirus are likely to affect the level of uncertainty that may exist in an assertion that the entity will be able to continue as a going concern. Regardless of the result of management's assessment, many entities will need to disclose key judgments and estimates it used to arrive at this conclusion.

Key areas in a going concern assessment may include: sources of assumed liquidity and cash flows, forecasts of future revenue or additional expenditure, and support from government.

Work performed

We carried out the following planned audit procedures:

- Reviewed management's assessment of going concern, including sensitivities of the assumptions and impact on cash flows and available reserves
- Understood how management would address a shortfall in cash available to meet liabilities as they fall due
- Assessed the adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment.

Results

The MTFS prepared for 2019/20-2023/24 identified a potential range of outturn variances between £3.1m and £14m. There are several reserves that would be available to meet this level of pressure. Covid-19 has had a major impact on 20/21 but assessments show that even the most pessimistic forecast can be covered by the Central Government support received and the prudent level of reserves held. The residual cost of Covid has been calculated as £16.2m (excluding council tax and NNDR losses). The Council can manage this cost pressure of £16.2m by utilising reserve balances. This will provide sufficient headroom to enable the Council to fund its operations over the next two years based on the modelling of the financial impact of Covid-19.

Conclusion

We have not identified any issues.

NON CURRENT ASSET DISPOSALS

There is a risk disposals may be materially misstated due to the number of disposals in the year and the number of errors identified in our work from the prior year.

Risk description

There has been a large number of disposals in 2019/20. The nature of the transactions incurred include demolition, write-off and transfer of assets. There is a risk the Council may inappropriately dispose of assets which may not have met the capitalisation criteria in previous years or move assets to the Council's subsidiaries where it may not be appropriate. This risk is heightened due to the errors and issues we encountered over additions testing in 2018/19.

Work performed

We tested an increased sample of disposals to supporting documentation to confirm the disposal has been appropriately approved and agrees to the supporting documentation

Results

Our testing is ongoing in this area but we have identified two issues to date. Firstly several assets which were marked as demolished were actually found to be operational as a result of our testing. We also noted that an asset which had been inappropriately capitalised in the prior year identified during the 2018/19 audit has been written off this year. However, £232k of depreciation was charged against this asset in the year even though it should not have been capitalised-

Conclusion

Our work in this area is ongoing and the fieldwork is still subject to Manager, Partner and Quality Reviewer reviews.

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

REFCUS

There is a risk the definition of REFCUS is applied incorrectly, and assets are understated.

Risk description

The Council reported a large increase in REFCUS (revenue expenditure funded from capital under statute) in 2019/20 which presents a risk of material misstatement.

In line with our understanding of the client and other local government clients REFCUS is usually a low value balance as was the case with the Council in 2018/19 (£1.8m). In 2019/20 the REFCUS balance was £7.6m. There is a risk the Council are applying the definition of REFCUS incorrectly, thereby understating assets.

Work performed

We tested an increased sample REFCUS expenditure to confirm it has been classified correctly.

Results

Our testing did not identify any errors.

Conclusion

TBC

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

Contents
Introduction
Executive summary
Significant risks
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets and investment property
Valuation of pension liability
Group accounts
Property Plant and Equipment Additions
Assets under construction
Debtors
Creditors
Allowance for receivables
Going concern
Non current asset disposals
REFCUS
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Adecco rebate	Adecco rebate of £2.2m has been grossed up as income as opposed to reducing expenditure.
Reside income and expenditure	Recognition of Reside Income (£5.9m) and expenditure (£6.0m) not included in 2019/20 in line with IFRIC 4
Dividend income	Dividend income of £2.3m incorrectly presented as Taxation and Non Specific Government Grant Income
Recharges	Support for recharges of £49.7m could not be provided with the Council having to reverse this and rework the recharges posted.
Balance with LBBD Pension Fund	There was a balance of £10.7m with LBBD Pension Fund classified as cash which in substance is a loan to the Pension Fund and should be classified as a short term investment.

Contents
Introduction
Executive summary
Significant risks
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets and investment property
Valuation of pension liability
Group accounts
Property Plant and Equipment Additions
Assets under construction
Debtors
Creditors
Allowance for receivables
Going concern
Non current asset disposals
REFCUS
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the directors 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. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report in January 2021.

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.

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 any significant matters in connection with related parties.

Group matters

Our review of the component auditors' reporting is ongoing.

Contents
Introduction
Executive summary
Significant risks
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets and investment property
Valuation of pension liability
Group accounts
Property Plant and Equipment Additions
Assets under construction
Debtors
Creditors
Allowance for receivables
Going concern
Non current asset disposals
REFCUS
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



We are required to bring to your attention unadjusted differences and we request that you correct them.

There are 10 unadjusted audit differences identified by our audit work which would increase the deficit on the provision of services for the year of £141.3m by £4.6m. This includes brought forward errors which impact on the deficit of provision of services this year by increasing the deficit by £6.2m.

The general fund balance would increase by £4.6m if these audit differences were adjusted.

Details for these items are set out on the following page.

Management have stated that they do not intend to adjust because they consider these differences to be immaterial in the context of the financial statements as a whole.

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

PRIOR YEAR UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	DR/(CR) £'000
Prior year unadjusted audit differences	
1: Brought forward unadjusted errors	
Being an understatement of income and the general fund opening balance as a result of an overstatement of income and debtors in the prior year	
CR NCOS Income	(11,803)
Being an understatement of expenditure and general fund opening balance as a result of an overstatement of expenditure and creditors in the prior year	
DR NCOS Expenditure	5,636
Impact of roll over unadjusted audit differences	(6,167)

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences as at 3 March 2022					
Deficit on the provision of services for the year if above issues adjusted	(141,297)				
2: Misclassification of taxation and non specific grant income					
DR NCOS income		913			
CR Tax and non specific grant income			(913)		
3: Misclassification of contingent rent in PFI scheme					
DR NCOS expenditure		1,294			
CR Interest payable			(1,294)		
4: Input data used in asset valuations not being up to date and double counting of Hewett Road Roding Primary School assets					
DR Other land and buildings				3,964	
Cr Revaluation reserve					(3,964)
5: Misclassification of contingent rent in PFI scheme in prior year					
DR CIES Expenditure		1,337			
CR Interest payable			(1,337)		

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences as at 3 March 2022					
6: Expenditure cut-off error for rental costs relating to 2019/20 recognised in 2020/21					
DR Expenditure	205	205			
CR Accruals					(205)
7: Tax and non-specific grant income relating to 2017/18 recognised in 2019/20					
DR Income	1,257	1,257			
CR General fund opening balance					(1,257)
8: Cut off error relating to 2020/21 HRA expenditure being capitalised in 2019/20					
DR Creditors				570	
CR PPE dwellings					(570)
9: Cut off error where AUC items relating to 2018/19 capitalised in 2019/20					
DR AUC opening balance				5,300	
CR General fund opening balance					(5,300)

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

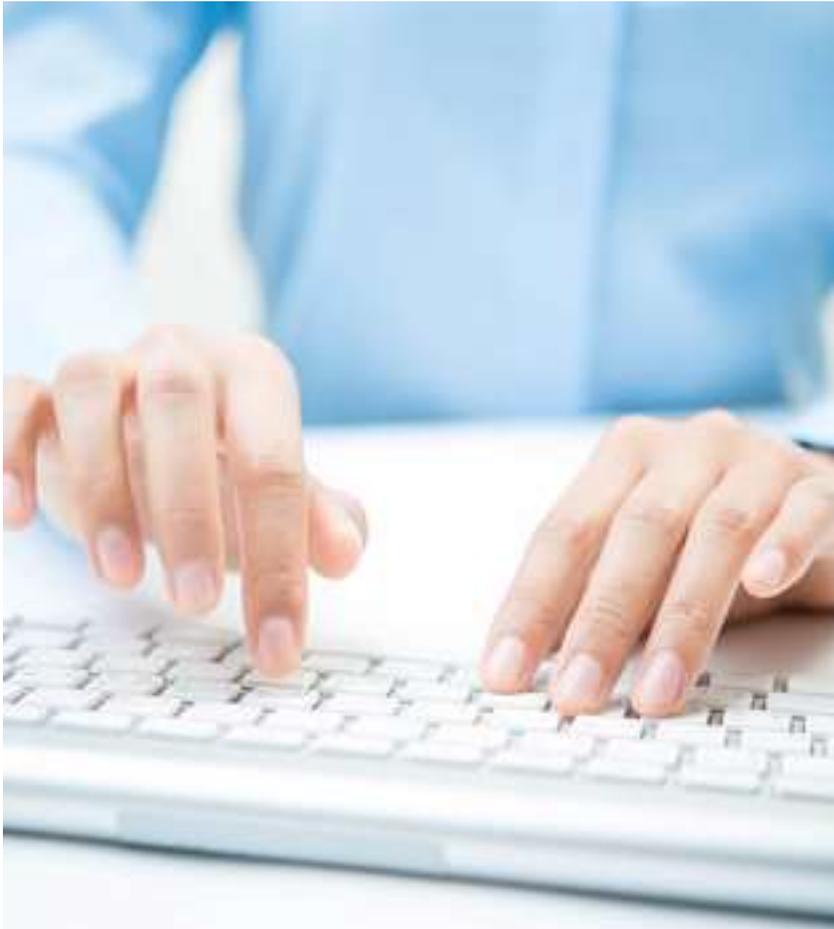
	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences as at 3 March 2022					
10: Correction of schools cash balance for Marks Gate School					
DR NCOS income	119	119			
CR Cash					(119)
Total unadjusted audit differences	1,581	5,125	(3,544)	9,834	(11,415)
Impact of roll over unadjusted audit differences	(6,167)				
Impact of current year and roll forward unadjusted audit differences	(4,586)				
Impact of current year and roll over unadjusted audit differences on the deficit of the provision	(145,883)				

	General Fund balance £'000	HRA balance £'000
Impact on the General Fund balance and HRA balance		
Balance before unadjusted audit differences	82,146	16,464
Impact on deficit on the provision of services above	4,586	-
Adjustments that would be reversed from the General Fund and HRA balance through the Movement in Reserves Statement	119	-
Balances if above adjustments made	86,851	16,464

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



To date there are 13 audit differences identified by our audit work that were adjusted by management. This decreased the draft deficit on the provision of services of £117.1m by £748k and decreased draft net assets of £868.5m by £26.7m.

The general fund balance decreased by £1.3m as a result of these adjustments.

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences					
Total Comprehensive Income and Expenditure	(168,009)				
Adjustment 1: Double counting of Roding Primary School (Hewett Road) asset					
DR Revaluation adjustment via OCI	20,348	20,348			
CR Other land and buildings					(20,348)
Adjustment 2: Double counting of Fanshawe College asset					
DR Revaluation adjustment via OCI	7,133	7,133			
CR Other land and buildings					(7,133)
Adjustment 3: Correcting NNDR appeals provision					
DR Tax and non-specific grant income	1,185	1,185			
CR Provisions					(1,185)

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences					
Adjustment 4: Adecco rebate incorrectly netted off against income					
DR NCOS expenditure		2,272			
CR NCOS income			(2,272)		
Adjustment 5: Recognition of Reside income not included in 2019/20 in line with IFRIC 4					
DR NCOS expenditure	6,009	6,009			
DR NCOS gross income	(5,990)		(5,990)		
CR Financing income	(19)		(19)		
CR Debtors					(70)
CR Cash					(407)
CR Creditors				477	

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences					
Adjustment 6: Dividend income incorrectly classified as tax and non-specific grant income					
DR Tax and non-specific grant income		2,295			
CR Financing income			(2,295)		
Adjustment 7: Reclassification of loan to LBBB Pension Fund from Cash and Cash Equivalent to Short Term Investment					
DR Investments				10,713	
CR Cash					(10,713)
Adjustment 8: Reversal of unsupported recharges					
DR Other expenditure		49,678			
CR Recharges			(49,678)		
Adjustment 9: Journal for new recharges					
DR Recharges		10,504			
CR Other expenditure			(10,504)		

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences					
Adjustment 10: Parking debtor not recorded					
DR Debtors				1,040	
CR NCOS income	(1,040)		(1,040)		
Adjustment 11: Insurance provision overstated					
DR Provisions				1,500	
CR Expenditure	(1,500)		(1,500)		
Adjustment 12: Correction of LBBB share of NNDR appeals provision					
DR Provisions				3,193	
CR NNDR income	(3,193)		(3,193)		
Adjustment 13: Impairment of court cost receivables					
DR Expenditure	3,800	3,800			
CR Debtors					(3,800)
Total adjusted audit differences	26,712				
Adjusted Total Comprehensive Income and Expenditure	(141,276)				

Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

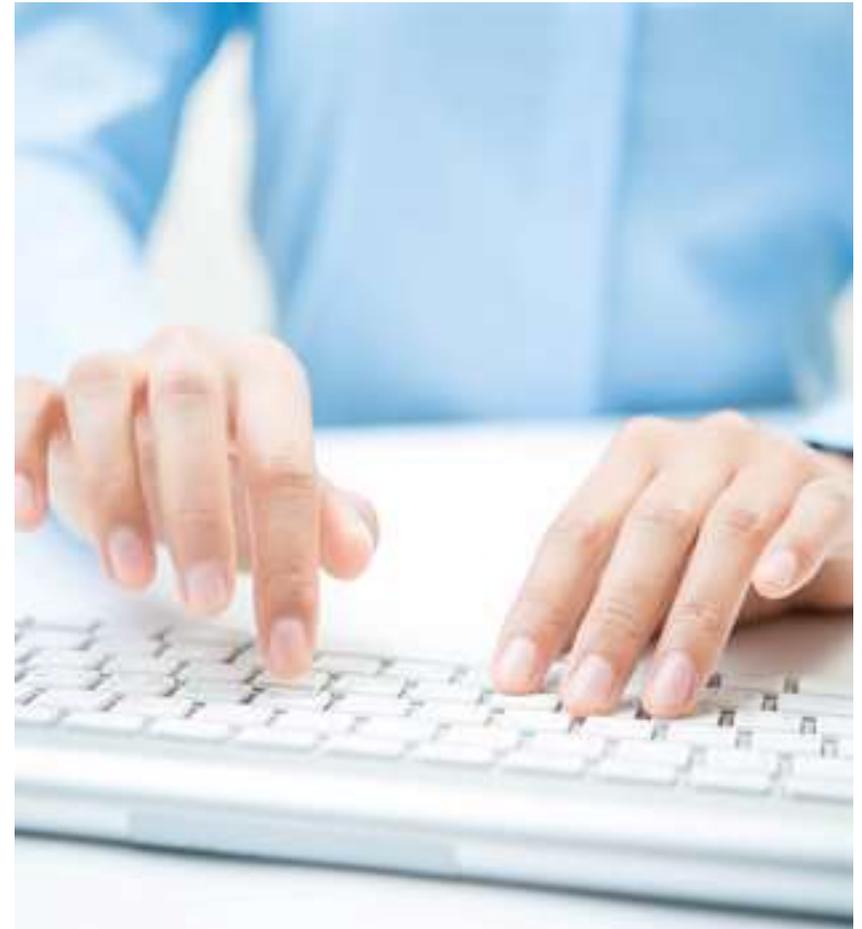
We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.

The Council disclosed dividend income of £2.3m in the Taxation and Non specific grant income note, although the income is best categorised as Financing and Investment Income and Expenditure given the nature of the income.

In note 29 to the accounts the estimated 2020/21 contributions to be received is £18.9m but this doesn't include an adjustment for the expected pay rises for teachers. We have recalculated the expected rate using the pay rise element and the estimate is £19.5m.

In note 27 Finance Lease disclosure there were differences on the disclosure of assets (2019/20 £11.5m compared to 2018/19 £18.9m) primarily due to the incorrect inclusion of land. In addition the minimum lease payments (£2m) did not agree to the finance lease model.

Management have agreed to adjust for these.



Contents
Introduction
Executive summary
Audit differences
Unadjusted audit differences: Summary
Unadjusted audit differences: Detail
Unadjusted audit differences: Detail 2
Adjusted audit differences: Summary
Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Prior year Adjusted audit differences: Detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

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 so far. Our work is ongoing in this area.
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 at the moment in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge. Our work is ongoing in this area.

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Reporting on other information
Use of resources
Control environment
Audit Report
Independence and fees
Appendices contents

USE OF RESOURCES OVERVIEW

New Code of Audit Practice (“Code”)

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.

The results of this work can be seen on page 23.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finance	Sustainable resource deployment	Significant	No (but detailed work is subject to Partner review).

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Use of resources overview
Sustainable finances (use of resources)
Control environment
Audit Report
Independence and fees
Appendices contents

Page 4

SUSTAINABLE FINANCES (USE OF RESOURCES)

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Use of resources overview
Sustainable finances (use of resources)
Control environment
Audit Report
Independence and fees
Appendices contents

<p>The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these may not be delivered.</p>
Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant control findings to be reported
Letter of representation point

Risk description

The net expenditure in 2019/20 was £157.93m against a budget for 2019/20 of £154.74m, giving a reported deficit outturn of £3.1m, which was met by the drawdown of reserves. Looking forward at the Council's Medium Term Financial Strategy (MTFS) to 2020/21 the Council has refreshed its forecast to include the effects of the Coronavirus pandemic on its finances. This has been forecast to be in the region of £28m, from reduction of income and additional cost pressures. The Council have been awarded government grants of £12.13m to partially offset the cost pressures however the Council are expecting to utilise a significant amount of reserves to mitigate the emerging financial pressures and to cover the shortfall between loss of income/cost pressures and COVID-19 related additional funding promised by the Government. The Council has uncommitted reserves of £17m at the end of 2019/20 and a reserves policy to maintain £12m uncommitted reserves. There is a risk reserves could fall below this level.

Looking beyond 2020/21 the Council is forecasting a cumulative budget gap of £39.6m within in the next five years, which will need to be met by corporate savings, reduction to service cost/services or increased income streams, which causes significant financial uncertainty in the medium term.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy (MTFS) and assess the reasonableness of the cost pressures and the amount of Government funding applied
- Monitored the delivery of the budgeted savings in 2019/20 and the plans to reduce services costs and increase income from 2020/21
- Reviewed the considerations made by management in relation to the pandemic and the impact it will have on their future plans
- Reviewed the cash flows for the next 12 months
- Reviewed the strategies to close the budget gap in the coming years.

Results

The final outturn for 2019/20 was an overall overspend of £4.930m with £11m of overspent expenditure being offset by additional income. Most of this overspend was driven by long term budgetary pressures including demographic/demand pressures in Social Care and other frontline services. Considerable growth funding was provided in the MTFS including the use of additional government grant, but this was not sufficient to cover the level of financial pressures.

The requirement for further savings during the MTFS period is significant. The strategy to address the funding gap is through the following routes:

SUSTAINABLE FINANCES (USE OF RESOURCES)

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these may not be delivered.

- Savings proposals: those that have been identified and those that are proposed.
- Delivery of the corporate plan priorities and agreed transformation programmes to deliver sustainability in the longer term.
- Continue to identify new investment opportunities to secure financial sustainability and deliver regeneration for the borough.

The adequacy of reserves is assessed by the Chief Finance Officer and the minimum level of General Reserves is recommended at £12.0m. The current level of the General Fund balance is £17.0m.

Earmarked Reserves are available to provide financing for future expenditure plans. Earmarked Reserves (excluding those held by schools under delegation) stood at £49.6m at 31 March 2020. These are forecast to be £40.3m by 31 March 2021.

The Council continues to face financial challenges over the medium term. The delivery of a balanced budget for 2021/22 is reliant on delivering new savings of £2.641m in addition to those outstanding from previous years. Further savings will need to be identified in 2022/23, 2023/24 and 2024/25. There is significant uncertainty in relation to local government funding beyond 2021/22 and the potential impact of changes to New Homes Bonus, the Business Rates Retention Scheme and the Fair Funding Review. The Council

continues to maintain its focus on delivering transformation at pace and thereby securing financial sustainability.

Conclusion

Overall we are satisfied the Council has adequate arrangements for budget monitoring and taking mitigating actions to eliminate the impact of any overspends and undeliverable savings.

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

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Use of resources overview
Sustainable finances (use of resources)
Control environment
Audit Report
Independence and fees
Appendices contents

SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a

result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Calculation of impairment allowance on Council tax and NNDR receivables	The impairment allowance percentages have been set arbitrarily at 50% for current billing year, 75% for previous billing year and 100% for all older debts. There is a risk that the impairment allowance does not accurately reflect the likelihood of collection.	Review historic collections data to determine actual collection rates for different ages of debt and apply these to bad debt provisions going forward.	Historically the Council has always erred to the cautious side and ensured they do not under provide, hence the allowances calculated to date. However, the Council has since moved towards adopting an approach which incorporates actual collection rates for certain periods. This should improve going forward.
PPE valuations	There were 2 assets which were identified as having been double counted in the fixed asset register and accounts. These had a total of £27.4m so assets were materially overstated. One of these assets was also double counted in 2018/19 with a value of £9.8m. There were also several assets which were valued in 2018/19 based on outdated input information and this resulted in an understatement of assets by £13.7m. The net understatement of assets is £3.9m in the prior year.	Introduce a control process, whereby: <ul style="list-style-type: none"> A thorough check of all input data provided to the valuer is made in collaboration with the Estates team to ensure it is fully up to date for the year end valuations. A complete review of the valuation schedules is carried out to help identify any duplicate assets A review process is put into place to ensure that the revaluation entries are correctly processed in the fixed asset register. 	Officers within Asset Management team have reviewed building valuation data as part of 20/21 to ensure correct information is used for property valuation. A reconciliation between valuation workings and accounting entries is now in place to ensure relevant valuation is updated to FAR without duplication.
Preparation of financial Statements	Our initial review of the draft financial statements this year again identified a significant number of issues, both in relation to compliance with the Code, casting and reconciliations to working papers. In addition, as was the case in the prior year, our work has identified material misstatements in the draft financial statements that were published by the Council.	Introduce a two layer quality control, whereby: <ul style="list-style-type: none"> The accounts are reviewed for compliance with the code of practice The accounts are reviewed for casting All working papers are reconciled to the draft financial statements. 	Over the last year, processes and controls have been put into place to help enhance the quality assurance review process of the financial statements preparation. This process will be documented and evidenced for audit purposes. The work will extend to that of the Group Accounts. This is due to the introduction of a consolidation pack which is circulated to the subsidiaries prior to the year end.

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Significant deficiencies
Significant deficiencies
Other deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Audit Report
Independence and fees
Appendices contents

SIGNIFICANT DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Employee contracts	During the course of the audit work we found that there was a lack of signed contracts that agree to the amounts paid for employees. There were a significant amount of employees whose contracts either did not exist, did not agree or were not signed. There is a risk that amounts paid to employees cannot be agreed to supporting documentation and an increased risk of disputes.	Maintain a central spreadsheet for amounts paid to employees or have the employees sign an annual pay review letter, whether that be a monetary amount or the scale that their pay is based upon.	TBC
Loan interest workings	Within the interest calculations provided by Management, we identified errors within the formulae (e.g. missing addition of a cell). The implication of this is the interest calculations are not correct which could cause material misstatements on larger balances.	Review formulae by another member of staff to ensure accuracy of loan interest calculations.	All interest calculations will be done via the Council's treasury system, Logotech. These will be checked and signed off at year end by the Investment Fund Manager. Additionally, these will be included in the consolidation pack circulated to the subsidiaries.
User access reviews	There is no practice of running and reviewing user reviews to monitor active users for the Oracle, AIM cash management, Academy, Controcc and Lloyds Link systems. There is a risk in the absence of periodic user reviews that users may bypass internal controls that are reliant on effective segregation of duties, increasing the risk of fraud or accounting error.	<p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> A user access review is performed by an individual who is independent of the user access set up and deletion process. The process should include obtaining a system generated user list for the respective application which specifically details the access permissions that each user has been allocated. This should be signed by Management to verify that this allocation is appropriate. Any changes required as a result of this review are requested via a formal request following the user modification process. This review should take place on a quarterly basis. 	<p>The Council has a procedure in place to review access to 'high risk' responsibilities in the General Ledger and this has been done regularly since June 2020; the same procedure is in place for AR, AP, HR/Payroll responsibilities, however the only one done with any regularity is GL. This has been highlighted in preparation for the migration to Advanced E5, the new Oracle replacement. This will be internally managed to ensure that the nominated person from each area completes, with regularity, these reviews and that they are signed off by management and held centrally.</p> <p>AIM, Academy, ContrOCC and Lloyds Link are maintained by individual system administrators, and will be included in the recommendation for periodic user reviews.</p>

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Significant deficiencies
Significant deficiencies
Other deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Audit Report
Independence and fees
Appendices contents

Page 49

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Privileged and generic user accounts	<p>There is no practise of running and reviewing routine user activity reports on privileged and generic user accounts for the Oracle system. There is a risk in the absence of reviewing user activity reports on these particular accounts that users may bypass internal controls that are reliant on effective segregation of duties to post fraudulent transactions.</p> <p>On the Capita Housing system we also found that privileged user activity was carried out through two generic user accounts which lack accountability of actions. The risk is that fraudulent transactions may be posted without being able to trace the user who posted them.</p>	<p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> A review is undertaken on user activity reports. This review should be based on a risk based approach to include a review of activity of users with user administration rights and that of external 3rd party suppliers. This should be signed by management to verify that the review has been appropriately undertaken. Access to the Capita Housing system is restricted and activity monitored on a regular basis to ensure any incorrect transactions, whether as a result of fraud or error, are identified on a timely basis. 	<p>Capita has now been replaced by Open Housing. The Generic Accounts still exist in Open Housing in order to run and review Batch Processes. The recommendation surrounding restricted access review has been highlighted to the Open Housing system administrator.</p>
Weak password parameters	<p>There are weak password parameters such as password age, complexity and encryption for the AIM cash management and Lloyds Link systems. There is a risk in the presence of weak password parameters, unauthorised individuals may be able to interrogate and obtain access to the application easier.</p>	<p>Management should ensure strong passwords are created for these systems by enforcing password parameters relating to age and complexity. This would include change of passwords after regular periods (e.g. every 60 days).</p>	<p>Lloyds link has been replaced by Lloyds commercial Banking which has stronger password requirements, password changes every 60 days and a pin number for all users. To enforce most of the proposed changes for AIM will require the system owner, Capita, to add restrictions and enforce the password complexity and encryption. The potential to increase the password parameters will be discussed with the provider.</p>

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Significant deficiencies
Significant deficiencies
Other deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Audit Report
Independence and fees
Appendices contents

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Significant Deficiencies

Area	Issue and impact	Original recommendation	Progress	Management response
Preparation of financial Statements	Our initial review of the draft financial statements identified a significant number of issues, both in relation to compliance with the Code, casting and reconciliations to working papers.	<p>Introduce a two layer quality control, whereby:</p> <ul style="list-style-type: none"> The accounts are reviewed for compliance with the code of practice The accounts are reviewed for casting All working papers are reconciled to the draft financial statements. 	We noted there has been some improvement but again identified material misstatements in the draft financial statements signed by the Section 151 Officer, published and presented for audit.	Over the last year, processes and controls have been put into place to help enhance the quality assurance review process of the financial statements preparation. This process will be documented and evidenced for audit purposes. The work will extend to that of the Group Accounts. This is due to the introduction of a consolidation pack which is circulated to the subsidiaries prior to the year end.
Quality of working papers	Our review and testing of working papers has identified a significant number of errors including figures not agreeing to the draft statements or the supporting evidence requested.	Quality review all working papers before proving for audit.	We have seen much improvement in respect of the quality of working papers relating to grant income, debtors and creditors. The working papers reconciled to the values and disclosures in the accounts, however there were instances where evidence in response to audit queries were not optimal. There was no evidence these had been reviewed by senior staff before being provided to audit.	As explained above, processes and controls are now put into place along with standard template of working papers to be adopted. This will ensure the figures in the draft statements are linked to the information stored on the ledger along with clear set of working papers.

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Significant deficiencies
Other deficiencies
Other deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Audit Report
Independence and fees
Appendices contents

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Creditor balances	<p>Review of creditor balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> incorrect accrual calculations; incorrect classification where unspent grant income has been incorrectly included; and Insufficient supporting evidence for creditors. 	<p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> A complete review of the creditor balance is completed to ensure that all creditors have been correctly treated A regular review / reconciliation process is put in place to ensure that accruals are reviewed to confirm they have been correctly accounted for All creditors are reviewed to confirm there is sufficient supporting evidence if required 	<p>We increased our testing of this area in 2019/20 and identified an overstatement of the NNDR creditor. However, our testing noted fewer issues with accruals, unspent grant income and supporting evidence for creditors.</p>	<p>This is an area where the Council has significantly improved in during the past year. As a result, the audit of creditor balances was carried out in a timely manner. In addition to this, the Council has created a new role under the Financial Reporting team to focus on Balance Sheet items. Going forward, this will be strengthened further.</p>
Debtor balances	<p>Review of debtor balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> Different figures between the ledger and other Council systems; incorrect provision made for bad debt classification where unspent grant income has been incorrectly included; Insufficient supporting evidence for debtors; and Debtors incorrectly classified (such as payment in advance instead of receipt in advance. 	<p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> A complete review of the debtor balance is completed to ensure that all debtors have been correctly treated A review process is put in place to ensure that receipts in advance are reviewed to confirm they have been correctly accounted for Regular balance sheet reconciliations are carried out Emphasis on reviewing PO (for debtors & creditors) variations including correcting variances before year end All debtors are reviewed to confirm there is sufficient supporting evidence if required. 	<p>We increased our testing of this area in 2019/20 and identified a parking debtor which had not been recorded, court cost debtors not being provided for, and council tax and NNDR provisions not being based on analysis of historic collection rates. However, our testing noted fewer issues with supporting evidence and classification of debtors.</p>	<p>As explained above, this historically has been a weakness especially with the introduction of IFRS 9 requirements. Going forward, the new role which focuses on Balance Sheet will ensure there is a consistency over consideration of bad debt provision.</p>

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Significant deficiencies
Other deficiencies
Other deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Audit Report
Independence and fees
Appendices contents

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
User access	Management have confirmed there is currently no periodic review of access rights of users. From the review of the IT systems we noted one user who has been granted 'Super user access' in relation to LBBB Intercompany processes. This allows the user to post transactions to other entity ledgers, even though the user has no direct involvement with the other entities.	<p>Implement checks ensuring:</p> <ul style="list-style-type: none"> A periodic review of users is completed to ensure that the access of all users is considered, ensuring the separation of staff who have access to the financial systems and those that have access to other systems A review is completed for all 'Super users' to confirm that the access is appropriate. 	We noted there is no practice of running and reviewing user reviews to monitor active users for the Oracle, AIM cash management, Academy, Controcc and Lloyds Link systems. We noted there is no practise of running and reviewing routine user activity reports on privileged and generic user accounts for the Oracle system. We also noted there are weak password parameters such as password age, complexity and encryption for the AIM cash management and Lloyds Link systems.	The need for this review has been noted and will be reiterated to the relevant manager in each area (GL / AR / AP / HR / Payroll). It has also been highlighted to the project team for inclusion in the scope of the new ERP system. With regards to access to the different entities, Advanced E5 is much more segregated with each company having it's own access to the system, therefore only approved officers will have access to each company, which will have this access being reviewed on a regular basis in line with the high risk responsibilities review.
Grant income	<p>Review of grant balances identified a significant number of errors including:</p> <ul style="list-style-type: none"> Double accounting of the Dedicated schools grant; Incorrect classification between ring fenced and non-ring fenced grants; Incorrect recognition of grants in the correct financial period; and Incorrect classification of grants (i.e. grants which have been held for a significant period of time should be included as long term liabilities). 	<p>Introduce a control process, whereby:</p> <ul style="list-style-type: none"> A complete review of the grant balances (both revenue and capital) to ensure that all grant income has been correctly treated A review process is put in place to ensure that all new grants are recorded with sufficient detail that when monies are spent these can be checked against conditions to ensure the Council are able to do so and all working papers include the grant notification letter, award letter and confirmation amounts with any potential conditions Review of all grants which have not been spent at year end to confirm any income carried forward has been correctly accounted for. 	We increased our testing of this area in 2019/20 and identified a misclassification error where a ringfenced grant had been incorrectly included within non-ringfenced grants, and a cut-off error with a grant from 2017/18 being recognised in 2019/20. We did note there were no issues with grants received in advance.	This is an area where the Council has significantly improved in during the past year. As a result, the audit of Grant income (revenue) was carried out in a timely manner. The Council will extend the work to the Capital Grants.

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Significant deficiencies
Other deficiencies
Other deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Audit Report
Independence and fees
Appendices contents

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Group-wide Controls	<p>Controls designed, implemented and maintained by Group management over Group financial reporting have not been effective at:</p> <ul style="list-style-type: none"> Ensuring accuracy and completeness of component financial information Monitoring matters affecting the Group boundary, such as composition of decision making boards and contractual terms Identifying consolidation issues before submitting draft accounts for audit 	<p>Introduce procedures that:</p> <ul style="list-style-type: none"> Ensure the same information is used to prepare Group accounts and component accounts and there are lines of communication to amend all statements should adjustments arise Establish effective lines of communication to share matters affecting the Group boundary with Group management Ensure an effective review of consolidation adjustments, boundary considerations and Group statements/notes is completed prior to submission for audit. 	<p>We noted there were issues with the production of the group accounts, however there was significant improvement from the prior year.</p> <p>Our work is ongoing in this area.</p>	<p>This is the second year of Group Accounts being produced. The Council has learnt a lot from the overall process and has implemented a series of work programme to strengthen this area. This includes the production of a consolidation pack which is circulated to the wholly owned subsidiaries. Going further, the Council will carry out an intercompany transactions/balances reconciliation.</p>

Other Deficiencies

Area	Observation & implication	Recommendation	Management response
Allowance for non-collection of receivables	<p>Review of bad debt provision identified variances of the percentages used to calculate the provision and the policy has not been reviewed for a significant period of time.</p>	<p>Review the bad debt provision each year taking into account historical collections rates along with anticipated current or future impacting events.</p>	<p>This is now in place where a single working paper is produced for all known receivables along with the provision calculated. This will ensure a consistent approach is taken.</p>

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Significant deficiencies
Other deficiencies
Other deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Follow up of prior year deficiencies
Audit Report
Independence and fees
Appendices contents

AUDIT REPORT OVERVIEW

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Audit report overview
Independence and fees
Appendices contents

Opinion on financial statements

At this point we have not identified any issues that would prevent, subject to the successful resolution of outstanding matters, our being able to issue an unqualified audit opinion on the consolidated Group financial statements and the Council’s single entity financial statements, apart from the issues relating to valuation uncertainty linked to the Covid-19 pandemic as at 31 March 2020 and infrastructure assets explained on page 13.

The opinion will be modified to include an Emphasis of Matter in relation to the valuation of land and buildings as a result of the material uncertainty included within the valuations.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report at this stage.

Annual Governance Statement

We have no matters to report at this stage in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Use of resources

We have no matters to report at this stage in relation to the Council’s value for money arrangements

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 and the Group.

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 and the Group.

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

Contents
Introduction
Executive summary
Audit differences
Other reporting matters
Use of resources
Control environment
Audit Report
Independence and fees
Independence
Fees
Appendices contents

FEES

Fees summary	2019/20	2019/20	2018/19
	Actual	Planned	Actual
	£	£	£
Audit fees			
• Code audit fee	£127,801	£127,801	£127,801
• Group accounts consolidation audit fee ¹	TBC ²	£23,500	£39,500
• Other additional fee ³	TBC	-	TBC
Fees for audit services	TBC	£151,301	TBC
Non-audit services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim ⁴	-	-	£19,800
• Pooling of housing capital receipts return	£3,250	£3,250	£3,250
• Teachers' pensions return	£3,250	£3,250	£3,250
Fees for other non-audit services	£6,500	£6,500	£26,300
Total fees	TBC	TBC	TBC

¹ The group consolidation was not completed before 2018/19, therefore the fee for the audit was not included in the initial code audit fee. The £39,500 for 2018/19 and the £23,500 planned fee for 2019/20 were agreed with the Chief Financial Officer.

² Additional fees above the planned fee will be required to reflect the number of issues identified in relation to management's preparation of the group accounts and supporting working papers. This will be discussed with the Chief Financial Officer once our work is complete.

³ As previously reported to the Audit and Standards Committee significant additional fees are required as a result of the extensive difficulties conducting the 2018/19 audit in relation to the quality of the accounts and supporting working papers provided and the nature and volume of the misstatements identified. In turn this increases the risk profile of the audit to a level above that assumed in the Code audit fee for 2019/20, reflecting a significant increase in the level and scope of testing required.

⁴ Management has decided to seek an alternative provider for this grant certification.

APPENDICES CONTENTS

Contents
Appendices contents
Regulatory Developments
Ethical standard
Audit committee guidance
Our responsibilities
Communication with you
Outstanding matters
Audit quality

A	Regulatory Developments	57
	Restoring trust in audit and corporate governance	57
	BEIS consultation at a glance	58
	BEIS consultation at a glance 2	59
B	Ethical standard	60
	FRC Ethical standard	60
C	Audit committee guidance	61
	FRC Practice Aid for Audit Committees	61
D	Our responsibilities	62
	Our responsibilities	62
	Additional matters we are required to report	63
E	Communication with you	64
	Communication with you	64

F	Outstanding matters	65
	Outstanding matters	65
G	Audit quality	66
	Audit quality	66

RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

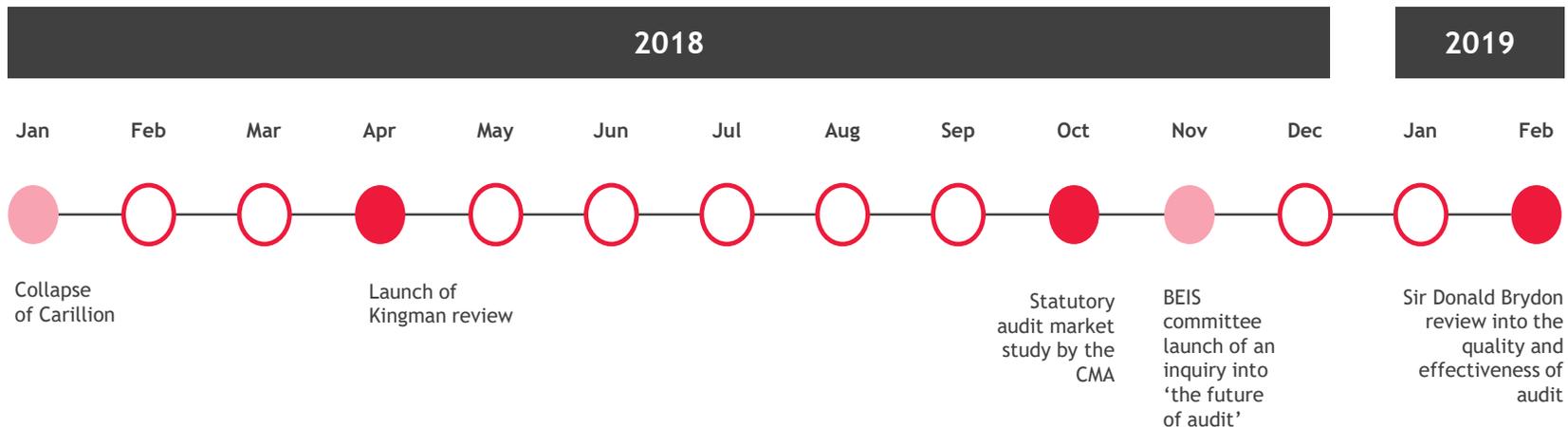
BEIS consultation issued March 2021

The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the [consultation](#) directly.

Although the consultation is only closed in July 2021, changes have 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. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

HISTORIC CONSULTATIONS TIMELINE



BEIS CONSULTATION AT A GLANCE

Issued March 21

Key Area of the BEIS consultation	Summary
1. Resetting the scope of regulation by expanding the definition of Public Interest Entities to include large private companies and “large” AIM quoted companies.	<p>The government proposes two possible tests to extend the scope of PIES:</p> <p>To adopt the test used to identify companies already required to include a corporate Annual Governance Statement in their directors’ report, or adopt a narrower test which incorporates the threshold for additional non-financial reporting requirements for existing PIES. This would cover companies with both: Over 500 employees and a turnover of more than £500 million as their consolidated position.</p> <p>The Government is also proposing that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m.</p>
2. Increasing the accountability of directors	<p>The consultation sets out a couple of options relating to directors accountability for internal controls and then indicates a tentative preferred option which would require a directors’ statement about the effectiveness of the internal controls. Unlike the US’s approach to internal controls which mandates external auditor attestation in most cases this option would leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders.</p> <p>This section of the consultation also includes proposals to require companies to report on their distributable reserves and for directors to be required to make a formal statement about the legality and affordability of proposed dividends.</p>
3. New corporate reporting requirements	<p>Introducing a requirement for PIES to produce an annual Resilience Statement. This new statement consolidates and builds upon the existing going concern and viability statements and would apply initially to Premium Listed companies.</p> <p>Introducing an Audit and Assurance Policy where directors have to describe their approach to seeking assurance. For publicly quoted entities, this would be subject to an advisory shareholder vote at the time of its publication,</p>
4. Strengthening the supervision of corporate reporting	<p>Giving the Audit, Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council) more power to direct changes to company reports and accounts.</p> <p>Creating increased transparency for the Corporate Reporting Review (CRR) process and an extension of the CRR process to the whole of the annual report and accounts.</p> <p>The Government proposes to broaden the regulator’s review powers so that it can scrutinise the entire contents of a company’s Annual Report and Accounts.</p>

Contents
Appendices contents
Regulatory Developments
BEIS consultation at a glance
BEIS consultation at a glance 2
Ethical standard
Audit committee guidance
Outstanding matters
Audit quality

BEIS CONSULTATION AT A GLANCE 2

Key Area of the BEIS consultation	Summary
5. Provisions concerning company directors	<p>Giving the regulator investigation and enforcement powers in relation to wrongdoing by all directors of Public Interest Entities. Due to the principles of collective responsibility and a unitary board, all directors of Public Interest Entities would be in scope.</p> <p>Strengthening malus and clawback provisions within executive director remuneration.</p>
6. Changes to audit purpose and scope	<p>The Government will seek to introduce a regulatory framework to cover both audits of financial statements (statutory audit) and other types of information which companies decide to have audited through the Audit and Assurance Policy process. It also proposes to legislate to require directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud.</p>
7. Changes to audit committee oversight and engagement with shareholders	<p>ARGA to establish a standards and supervision regime. ARGA will write the standards by which Audit Committees will need to operate and they will monitor compliance against these standards. Initially this will only apply to FTSE 350 Audit Committees.</p> <p>Additional requirements for audit committees in the appointment and oversight of auditors, which is intended to ensure the committee acts effectively as an independent body responsible for safeguarding the interests of shareholders.</p> <p>Increased engagement between a company and its shareholders. The Government agrees with Brydon's recommendation that the audit committee's annual report should set out which shareholder suggestions put forward for consideration had been accepted or rejected by the auditor.</p>
8. Improved competition, choice and resilience in the audit market	<p>The implementation of a managed shared audit regime for companies audited by the Big Four.</p> <p>The operational separation of certain accountancy firms.</p> <p>Statutory powers for the regulator to monitor the resilience of the audit market.</p>
9. Greater supervision of audit quality	<p>Making the regulator responsible for approving the auditors of PIEs and improving the transparency of Audit Quality Review reports by allowing AQR reports on individual audits to be published without consent.</p>
10. A new and strengthened regulator; the Audit, Reporting and Governance Authority	<p>The regulator will be given the power to make rules requiring market participants to pay a levy to meet the regulator's costs of carrying out its regulatory functions.</p>
11. Additional changes to the regulator's responsibilities	<p>The regulator will have the power to require an expert review where it has identified significant concern regarding a PIEs corporate reporting and auditing.</p>

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>

FRC PRACTICE AID FOR AUDIT COMMITTEES

Contents
Appendices contents
Regulatory Developments
Ethical standard
Audit committee guidance
Our responsibilities
Communication with you
Outstanding matters
Audit quality

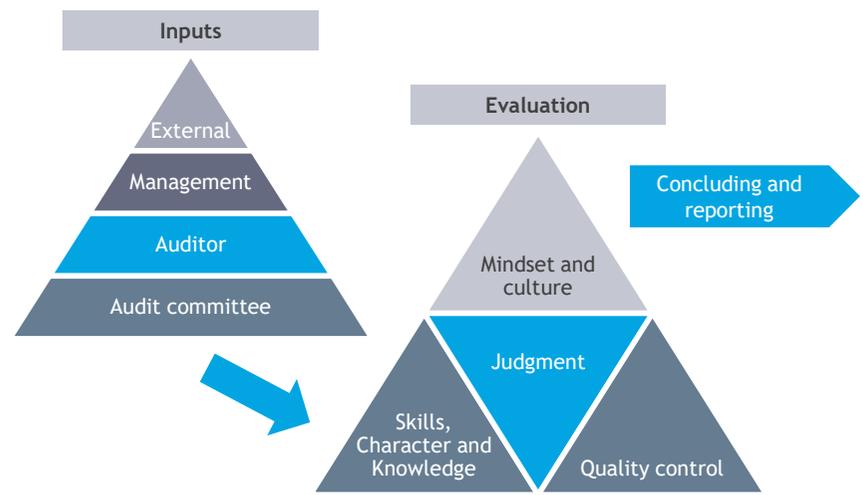
Page 63

The Financial Reporting Council (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 trustworthy 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](#)

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 consolidated and single-entity financial statements. We report our opinion on the financial statements to the directors of 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 by exception any significant weaknesses identified by our work on the Council’s value for money arrangements and a summary of associated recommendations made.

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.	We encountered a number of difficulties in our audit. This included the quality of the working papers, timeliness of receipt of both working papers and group accounts and evidence for a number of areas such as PPE and expenditure.
2	Written representations which we seek.	Our draft representation letter will be presented once audit work has been completed and potential issues for inclusion concluded.
3	Any fraud or suspected fraud issues.	No exceptions to note to date.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note to date.
5	Significant matters in connection with related parties.	No exceptions to note to date.
	Group matters	
6	Limitations on the audit where information was restricted.	No exceptions to note to date.
7	Any issues with the quality of component auditors work.	Our work is still ongoing.
8	Any fraud or suspected fraud at group or component level.	Our work is still ongoing.

Contents
Appendices contents
Regulatory Developments
Ethical standard
Audit committee guidance
Our responsibilities
Additional matters we are required to report
Communication with you
Outstanding matters
Audit quality

COMMUNICATION WITH YOU

Contents
Appendices contents
Regulatory Developments
Ethical standard
Audit committee guidance
Our responsibilities
Communication with you
Outstanding matters
Audit quality

Those Charged with Governance (TCWG)

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 TCWG of the Council and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

Communication, meetings and feedback

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

We 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	January 2021	Audit and Standards Committee
Report on significant weaknesses in controls / Audit progress report	February 2022	Audit and Standards Committee
Interim Audit Completion Report	March 2022	Audit and Standards Committee
Audit Completion Report	TBC	Audit and Standards Committee
Annual Audit Letter	TBC	Audit and Standards Committee

OUTSTANDING MATTERS

We are in the process of completing our audit work in respect of the financial statements for the year ended 31 March 2020.

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

- PPE work on additions and valuations
- Group accounts consolidation
- Resolution of the technical issue relating to the accounting treatment applied to infrastructure assets
- Completion of Manager, Engagement Lead and Engagement Quality Control Reviewer review and clearance of related review points
- Financial reporting technical review
- Review of the final version of the amended Statement of Accounts, including the financial information in the Narrative Report
- Updated going concern review, subsequent events enquiries and fraud enquiries to date of signing.
- Receipt of letter of representation



AUDIT QUALITY

Contents
Appendices contents
Regulatory Developments
Ethical standard
Audit committee guidance
Our responsibilities
Communication with you
Outstanding matters
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 Financial Reporting Council'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:

Lisa Blake

t: 01473 320716

m: 07791 397160

e: Lisa.Blake@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 audited body 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.

© March 2022 BDO LLP. All rights reserved.

www.bdo.co.uk

This page is intentionally left blank