Runnymede Borough Council

STANDARDS AND AUDIT COMMITTEE

Tuesday 17 March 2020 at 7.30 p.m.

in the Committee Room Runnymede Civic Centre, Addlestone

URGENT SUPPLEMENTARY AGENDA

PART I

10. BDO AUDIT PLANNING REPORT FOR YEAR ENDING 31 MARCH 2020 (BDO, MATTHEW VOSPER)

The Chairman has agreed that this item be admitted to the Agenda as an item of urgent business for the special circumstances and urgency as set out below:-

Special Circumstances

Information required to complete the report was not available until after the despatch of the main agenda.

Urgency

The next scheduled meeting of the Committee is after the plan takes effect.

Synopsis of report:
To present the Committee with BDO's Draft Audit Planning report for the year ending 31 March 2020.

Recommendations:
None. This report is for information

1. Report

1.1 Officers from BDO, the Council's External Auditors met with the Assistant Chief Executive and Corporate Head of Finance on 9 March 2020 to discuss BDO's Draft Audit Planning Report for the year ending 31 March 2020.

1.2 Attached at Appendix 'G' is BDO's report which they will use to inform their audit of the Council's final accounts later in the year.

1.3 Matthew Vosper will present this to the Committee for information and answer any questions that Members might have.

(For information)

Background Papers
None stated.

Appendix G

Report to the Standards and Audit Committee

RUNNYMEDE BOROUGH COUNCIL

Audit Planning Report: year ending 31 March 2020

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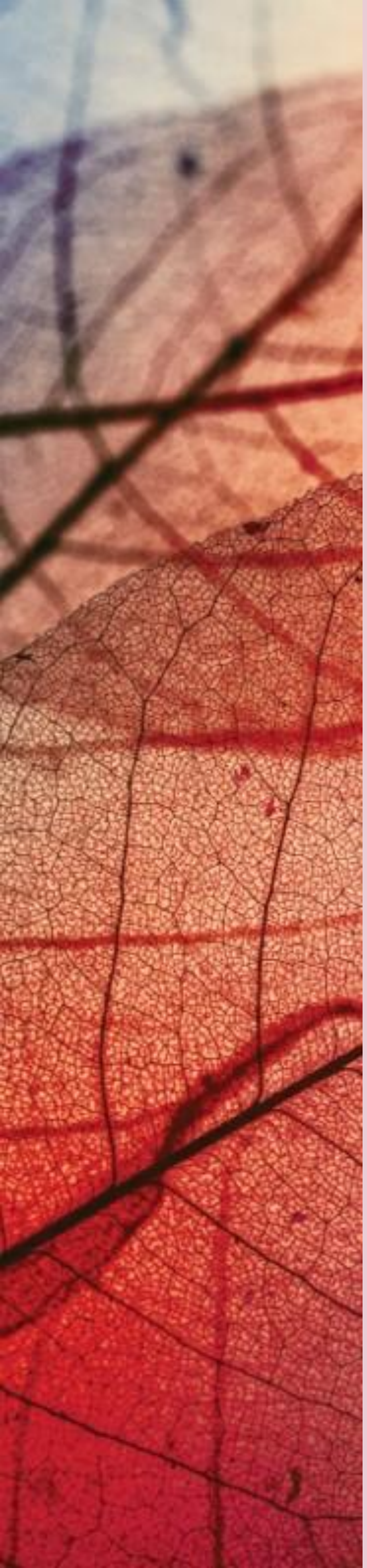
BDO



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WELCOME

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We have pleasure in presenting our Audit Planning Report to the Standards and Audit Committee of Runnymede Borough Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2020 in respect of our audit of the financial statements and consolidated entities (together the 'Group') and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Standards and Audit Committee meeting on 17 March 2020 and to receiving your input on the scope and approach.

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

Steve Bladen, Director

For and on behalf of BDO LLP, Appointed Auditor

17 March 2020

Steve Bladen

Engagement Director

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Matthew Vosper

Audit Manager

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SCOPE AND MATERIALITY
Executive summary

CONTENTS

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

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

Audit scope

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

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

SCOPE AND MATERIALITY
Executive summary

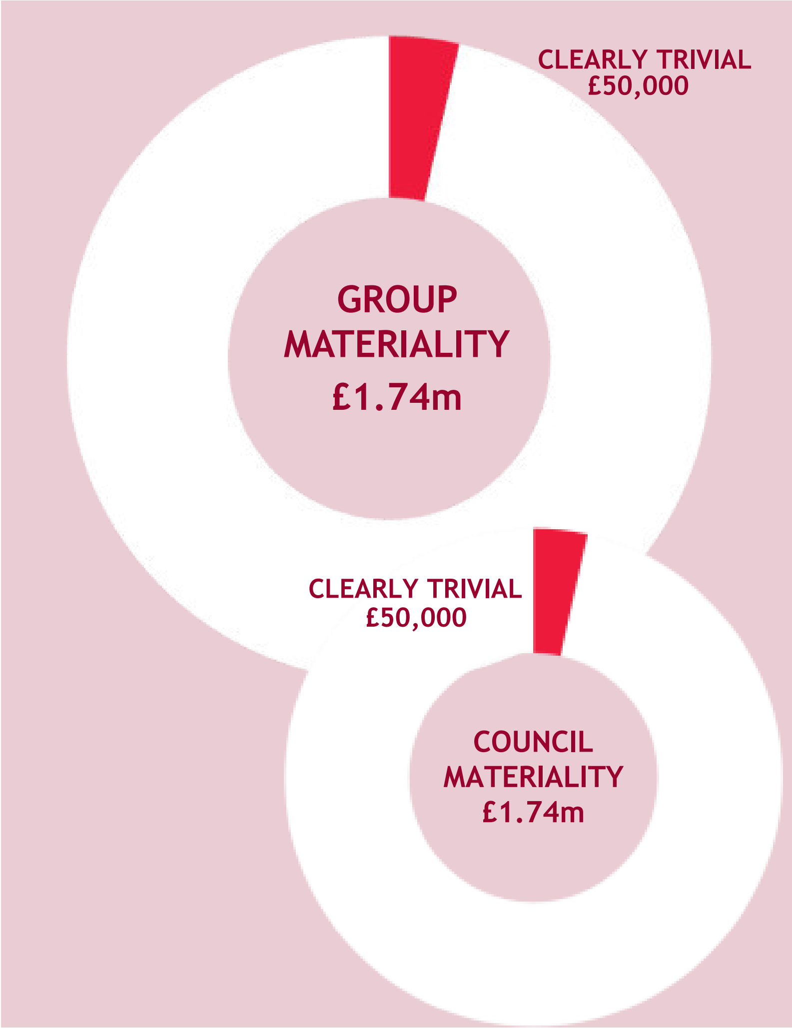
CONTENTS

Materiality

Planning materiality for the Group and Council has been set at 2% of gross expenditure for the year. Based on the prior year financial statements this has been calculated as £1.74 million for both the Group and Council. This will be revisited when the draft financial statements are received for audit. We have set our clearly trivial threshold at £50,000 for both the Group and Council.

In the prior year we set overall planning materiality at 1% of gross assets. This was set at £9.9 million for the Group (£9.3 million for the Council). However, we also applied a lower level of specific materiality to income and expenditure transactions that impacted on revenue resources. This was calculated on the basis of 2% of gross income (excluding valuation gains on investment properties and impairment reversals for dwellings) in the Comprehensive Income and Expenditure Statement, and was set at £1.6 million for the Group (£1.5 million for the Council). Our judgement this year is that while the Council holds a significant investment property portfolio, as a public sector entity, the key focus of the user of the financial statements is the Council's expenditure.

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



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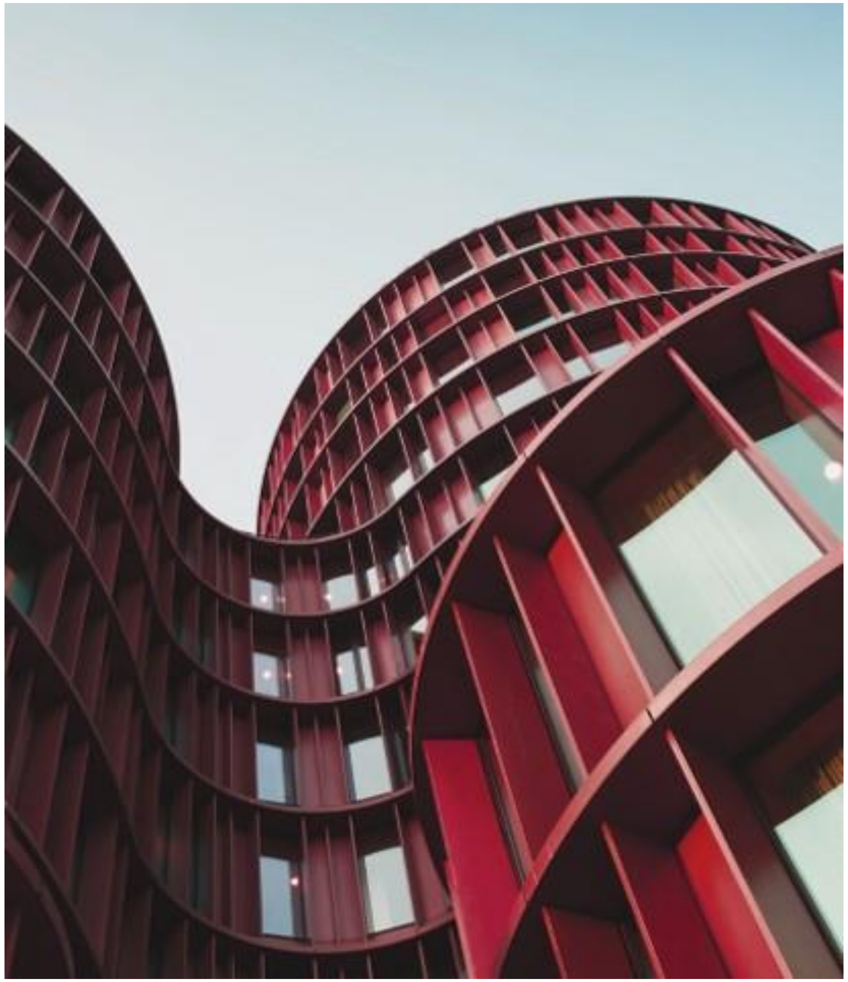

Our audit strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have discussed the changes to the Council, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Group's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

We will continue to update this assessment throughout the audit.

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

AUDIT RISKS OVERVIEW
Executive summary

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Risk identified - financial statements	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Revenue and expenditure recognition	Significant	Yes	Substantive	Medium
Valuation of non-current assets	Significant	No	Substantive	High
Valuation of pension liability	Significant	No	Substantive	High
Allowance for non-collection of receivables	Normal	No	Substantive	Medium
Disclosure of IFRS 16 impact	Normal	No	Substantive	Low

Risks identified - Use of resources	Risk rating	Testing approach
Sustainable finances	Significant	Detailed review
Egham Gateway West development	Significant	Review of governance procedures

INDEPENDENCE AND FEES

Executive summary

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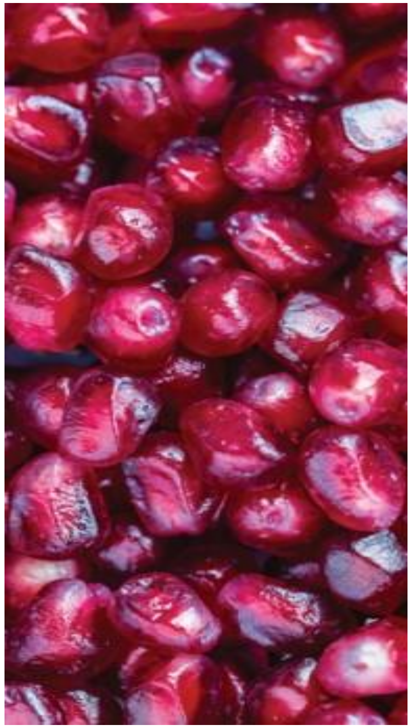

Independence

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

Fees

	2019/20 £	2018/19 £
Code audit fees	34,754	34,754
Additional audit fee	(2) TBC	(1) 38,572
Total audit fees	**TBC**	**73,326**
Non audit fees		
- Housing Benefit Subsidy certification	(4) TBC	7,208
- Housing Benefit Subsidy additional fee	-	(3) 6,000
- Pooling Housing Capital Receipts return certification	2,250	2,250
Non audit fees	**TBC**	**15,458**
Total fees	TBC	88,784

Notes

(1) The 2018/19 planned audit fee is the PSAA published scale fee. The scale is based on the historical position from 2012/13, and does not reflect the Council's significant investment in commercial property in recent years, or any of the changes in audit scope linked to current audit requirements for property assets, pensions liability, group accounts work, or whole of government accounts. As a consequence of this change in scope, we incurred significant additional costs in 2018/19, and therefore proposing an increase of £38,572 to our audit fee for 2018/19. In the first instance we will agree this variation with the Assistant Chief Executive, and Standards and Audit Committee. We will then submit a formal request to vary the fee to PSAA Ltd.

(2) The factors outlined in (1) above are equally applicable to 2019/20, and we therefore expect to seek a broadly similar variation to the scale fee as that sought in 2018/19. Discussions on the total fee impact will be held initially with the Assistant Chief Executive, and the Standards and Audit Committee, before a formal request to vary the fee is submitted to PSAA Ltd.

(3) Additional work was required for each error type identified, either to quantify an amendment to the subsidy return, or to test a sufficient number of cases to be able to extrapolate the impact of the errors identified over the untested population of claims.

(4) Non audit fees are currently being reviewed for 2019/20. These will be agreed with the Assistant Chief Executive, and then reported to the Standards and Audit Committee.

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OVERVIEW

Audit scope and objectives

Key components of our audit objectives and strategy for the Group are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Use of Resources	We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
WGA	We will review the Whole of Government Accounts (WGA) return and express an opinion on whether the return is consistent with the audited financial statements.
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Standards and Audit Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Standards and Audit Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

CONTENTS

As Group auditor we are required to design an audit strategy to ensure we have obtained the required audit assurance for each component for the purposes of our Group audit opinion ISA (UK) 600.

A high-level overview of how we have designed the Group audit strategy is summarised below to ensure you have clear oversight of the scope of the work we intend to perform on each entity.

AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS 2

CONTENTS

Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
Runnymede Borough Council	Provides district council services	Significant parent entity	Size and risk Expenditure £94m Income £89m Gross assets £973m	All risks	£1.7 million	Statutory audit performed by BDO LLP
RBC Investments (Surrey) Ltd	Residential property	Non-significant component	Size and risk Expenditure £0.8m Income £0.8m Gross assets £30m	Valuation of non-current assets	N/A	The financial statements for these components are subject to statutory audit by CSL Partnership Ltd. In performing our audit of the Council's group financial statements, we will not place reliance on the work of CSL Partnership Ltd., but will instead undertake direct testing of those transactions and balances within the component entities that are material to the group financial statements.
RBC Services (Addlestone One) Ltd	Property maintenance	Non-significant component	Size and risk Expenditure £0.8m Income £0.9m Gross assets £0.5m	N/A	N/A	
RBC Heat Company Ltd	Heat and light power generation	Non-significant component	Size and risk Expenditure £0.2m Income £0.3m Gross assets £0.1m	N/A	N/A	

BDO TEAM
Team responsibilities

Steve Bladen
Engagement Lead

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinions are given.

In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I will ensure that we have undertaken sufficient work to assess the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the NAO.

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

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Audit Manager

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I will lead on the audit of the Group and Council.

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

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OVERVIEW

Audit risks

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements or impact on our use of resources opinion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team. Key: Significant / Normal

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue and expenditure recognition			Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of investment property income and grant income where there are conditions attached to recognition of the grant. There is also a risk of manipulation of expenditure recognition by inappropriately deferring expenditure by including expenditure in the following year.
3. Valuation of non-current assets			There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Valuation of pension liability			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
5. Allowance for non-collection of receivables			There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.
6. Disclosure of IFRS 16 impact			There is a risk that disclosures for the implementation of IFRS 16 in 2020/21 are not complete and accurate if the Council has not undertaken the necessary preparatory work.
7. Sustainable finances (Use of Resources)			The financial environment in which the Council operates continues to be challenging, and presents a number of risks to the financial sustainability of the Council. In particular, the Council's investment strategy carries with it increased risk and exposure to an economic downturn, and as a consequence, a reduction in the yield available from commercial property. To achieve a sustainable financial position, the Council will need to meet income targets and deliver savings plans in the medium term; there is a risk that those targets will not be met.
8. Egham Gateway West (Use of Resources)			December 2019, the Council commenced work on the Egham Gateway West project, a £90 million pound redevelopment of Egham town centre. The Council will need to ensure governance arrangements for the programme development are robust and adequately manage the risks of the project.

MANAGEMENT OVERRIDE OF CONTROLS

CONTENTS

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

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

Risk detail

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Planned audit approach

To address this risk we will:

- Review and verify journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Evaluate any significant transactions that appear to be outside the normal course of business, or that otherwise appear unusual; and
- Review unadjusted audit differences for indications of bias or deliberate misstatement.

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

- Sample test additions to non-current assets and investment property to ensure they have been classified correctly; and
- Test journals relating to the acquisition of non-current assets and investment property.

REVENUE AND EXPENDITURE RECOGNITION

CONTENTS

Auditing standards presume that income recognition presents a fraud risk.

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

Risk detail

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of investment property income and grant income where there are conditions attached to recognition of the grant.

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

Planned audit approach

Our audit procedures will include the following:

- Test an increased sample of revenue grants included in net cost of services income to documentation from grant paying bodies and check whether recognition criteria have been met;
- Test an increased sample of investment property income to supporting documentation, including lease agreements, contracts and rent reviews;
- Test an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct accounting period; and
- Test a sample of manual accruals.

VALUATION OF NON-CURRENT ASSETS

CONTENTS

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

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

Risk detail

Local authorities are required to ensure that the carrying value of land, buildings and 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. At 31 March 2019, the Council held dwellings of £294 million, other land and buildings of £80 million, and investment property of £479 million.

Valuations of property assets can be complex, and the estimates and judgments made by management are likely to have a significant impact on the value of those assets. We also note that the Council is planning to change its valuer in 2019/20.

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

Planned audit approach

Our audit procedures will include the following:

- Consider the adequacy of the work performed by the Council's valuer, including the scope of the work performed;
- Review the valuer's skills and expertise to determine if we can rely on management's expert;
- Review the assumptions used by the valuer;
- Test source data used by the valuer to supporting documentation (for example, rental agreements / site plans);
- Test that the basis of valuation for assets valued in year is appropriate;
- Test movements in the valuation of assets against relevant indices for similar classes of assets, and valuation movements that appear unusual; and
- Confirm that assets not subject to valuation in 2019/20 have been assessed to ensure their reported values remain materially correct at the balance sheet date.

VALUATION OF PENSION LIABILITY

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

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

Risk detail

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

The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

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

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

Planned audit approach

Our audit procedures will include the following:

- Agreeing the disclosures to the information provided by the pension fund actuary;
- Assess the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Review the reasonableness of the assumptions used by the actuary (management's expert) for the calculation of the liability against other local government actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- Reviewing the controls in place for providing accurate membership data to the actuary;
- Check the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the LGPS;
- Checking that any significant changes in membership data have been communicated to the actuary; and
- Contacting the pension fund auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and

ALLOWANCES FOR NON COLLECTION OF RECEIVABLES

CONTENTS

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

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

Risk detail

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, non-domestic rates, housing benefit overpayments, housing rents and parking charges.

The Council assesses each type of receivable separately in determining how much to allow for non-collection. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

Planned audit approach

Our audit procedures will include the following:

- For receivables that are excluded from IFRS 9, review the provision model to assess whether it appropriately reflects historical collection rates by age of debt or arrears; and
- For all other receivables and intra-group loans to subsidiaries, review the provision model to assess whether it includes appropriate assumptions for expected credit losses.

DISCLOSURE OF IFRS 16 IMPACT

CONTENTS

There is a risk that disclosures in the 2019/20 financial statements for the implementation of IFRS 16 in 2020/21 are not complete and accurate if the Council has not undertaken the necessary preparatory work.

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

Risk detail

The Code of Practice on Local Authority Accounting requires the implementation of IFRS 16 (leases) in 2020/21. This is a significant change to the financial reporting requirements for the Council. The preparation for this change represents a major piece of work.

There is a risk that the disclosures required in the ‘Accounting standards not yet adopted’ note in the 2019/20 financial statements are accurate if the Council does not undertake the necessary preparatory work to enable the smooth implementation of IFRS 16.

Planned audit approach

Our audit procedures will include the following:

- Review the preparatory work undertaken by the Council;
- Review the disclosures in the ‘Accounting standards not yet adopted’ note;
- Test the completeness of the leases schedule to check that all relevant leases are identified; and
- As part of our testing of lease disclosures, test a sample back to supporting documentation to agree the terms of the lease to the leases scheduled maintained by the Council.

SUSTAINABLE FINANCES (USE OF RESOURCES)

CONTENTS

To achieve a sustainable financial position, the Council will need to meet income targets and deliver savings plans in the medium term; there is a risk that those targets will not be met

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

Risk detail

The financial environment in which the Council operates continues to be challenging, and presents a number of risks to the financial sustainability of the Council. The Council's latest Medium Term Financial Strategy identifies a savings gap of £4.8 million over the period 2020/21 – 2023/24. These savings are in addition to the £6.5 million of savings realised by the Council in recent years.

Since 2015 the Council has invested over £400 million in commercial asset acquisitions. The objective of this has been two-fold – firstly to acquire assets as part of a long-term place shaping and regeneration strategy, and secondly to generate a sustainable income stream to both fund its regeneration strategy, and replace significant reductions in the level of government funding received by the Council since 2009/10. The Council's investment strategy carries with it increased risk and exposure to an economic downturn, arising for example, from factors such as Brexit (and as a consequence, a reduction in the yield available from commercial property).

Planned audit approach

Our audit procedures will:

- Review the assumptions used in the Medium Term Financial Strategy, including the cost pressures applied, reductions in Government grant, and the level of commercial income;
- Review the delivery of budgeted savings in 2019/20; and
- Review the strategies to close the budget gap after 2020/21.

EGHAM GATEWAY WEST DEVELOPMENT (USE OF RESOURCES)

CONTENTS

The Council will need to ensure governance arrangements for the programme development are robust and adequately manage the risks of the project.

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

Risk detail

Egham Gateway West is one of several phases of the Runnymede Regeneration Programme – the Council's £200 million investment and redevelopment initiative which will upgrade the area's town centres, improving infrastructure and public facilities.

In December 2019, the Council commenced work on the Egham Gateway West project, a £90 million pound redevelopment of Egham town centre that will create a new public square, shops, a cinema, student accommodation, and more than 100 new homes, providing further options for local people, and those who would like to relocate. Main building works are set to complete in late summer 2021. The project represents a significant commitment in terms of the Council's strategic, operational and financial priorities.

Planned audit approach

Our approach will review the effectiveness of the Council's processes for exercising effective oversight of the project and significant expenditure commitments, focussing on:

- The quality of the Council's decision making process, in particular the quality of the information provided to Members when taking decisions in relation to the project;
- The extent to which the Council has sought and considered relevant technical, legal and independent professional advice to inform any decisions it made in considering the business case for this development;
- The extent to which the Council has identified, considered and mitigated the risks around the project;
- The extent to which the Council has modelled the financial implications of the project through its medium term financial plan;
- The extent to which the Council considered alternative funding options; and
- The adequacy of the processes established by the Council to review and monitor delivery of the agreed outputs.

OTHER MATTERS REQUIRING FURTHER DISCUSSION

CONTENTS

Fraud

Whilst the officers of the Council have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

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

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

Internal audit

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

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

Laws and regulations

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

Financial statement disclosures

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

Accounting policies

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

Significant accounting estimates and judgements

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

Related parties

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

Contingencies

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

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

GOING CONCERN

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

Officers' responsibilities

It is the Officers' responsibility to make an assessment of the Council's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the directors' approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

Audit responsibilities

Our responsibilities in respect of going concern are:

(a) To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and

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

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Council's financial performance including forecasting and budgeting processes and the Council's risk assessment process. We will evaluate:

a) The officers' method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other.

b) The officers' plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances.

c) The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

IT GENERAL CONTROLS

CONTENTS

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

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

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

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

- Total Finance
- PARIS
- Northgate
- MoorePay.

INDEPENDENCE

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

We have embedded the requirements of the auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement.

This document considers such matters in the context of our audit for the year ending 31 March 2020.

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

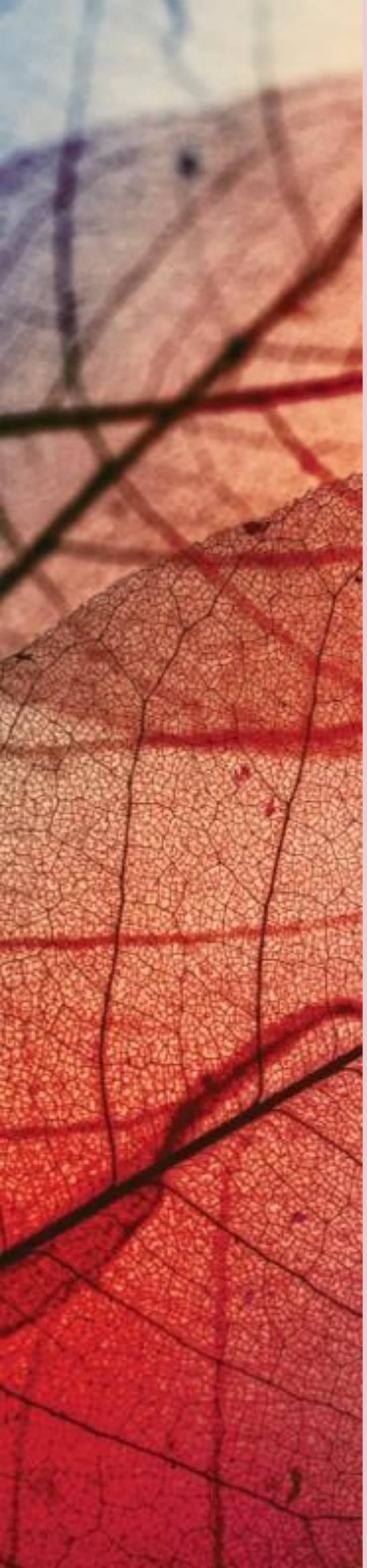
We also confirm that we have obtained confirmation that external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

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

Non-audit services

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the fees table on page 8.

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



APPENDICES CONTENTS

COUNCIL'S RESPONSIBILITIES

The Council's responsibilities and reporting

CONTENTS

Financial reporting

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

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

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

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

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

Use of resources

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

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

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

OUR RESPONSIBILITIES

Responsibilities and reporting

CONTENTS

Our responsibilities and reporting - financial reporting

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

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

Our responsibilities and reporting - use of resources

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

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

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Council and the Standards and Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

COMMUNICATION WITH YOU

CONTENTS

Those charged with governance

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

In communicating with the Standards and Audit Committee, representing TCWG of the parent and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Audit Planning Report

The Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the report.

TEAM MEMBER ROTATION

This table indicates the latest rotation periods normally permitted under the independence rules of the FRC's Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
Steve Bladen Director	1	10 years
Matthew Vosper Audit Manager	2	10 years

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS

Concept and definition

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

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

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

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

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

Calculation and determination

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

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests;
- Calculate sample sizes; and
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS

If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Standards and Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

AUDIT QUALITY

Overview

The FRC released their Audit Quality Review (AQR) results for the 7 largest accountancy firms in July 2019 for the review period 2018/19. A copy of all of the reports can be found on the FRC Website. We are very proud of our results in this review period where, for the second year running, 7 of the 8 files reviewed were assessed as either good or requiring only limited improvements.

Firm's results

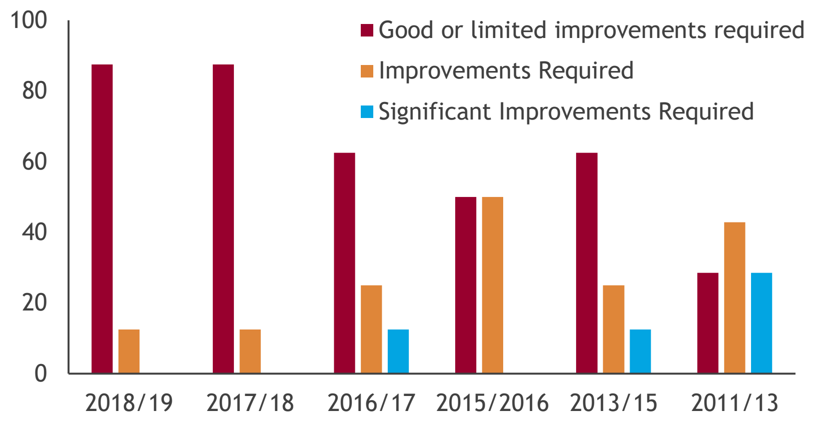
The graphs demonstrates our performance in relation to the other 6 largest firms and our continuous improvements and maintenance of that improvement over the last 6 review periods .

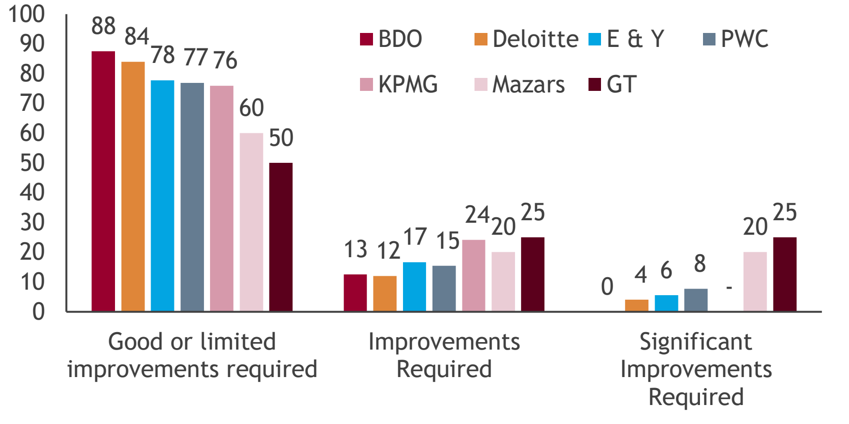
We include details of our model 'The Cycle of Continuous Improvement'. We acknowledge that the firm has performed well over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively with issues as they arise. This also highlights how our program of root cause analysis plays an important role in high audit quality.

We would encourage you to read our report which includes:

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

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





AQR RESULTS 2018/19

BDO performance

Live files require:

- Review of audit quality by senior team members

and may require:

- Hot review of financial statements
- Technical support for audit work
- Appointment of engagement quality control reviewer

Completed files may be subject to:

- Internal Audit Quality Assurance Review
- External review from AQR or QAD

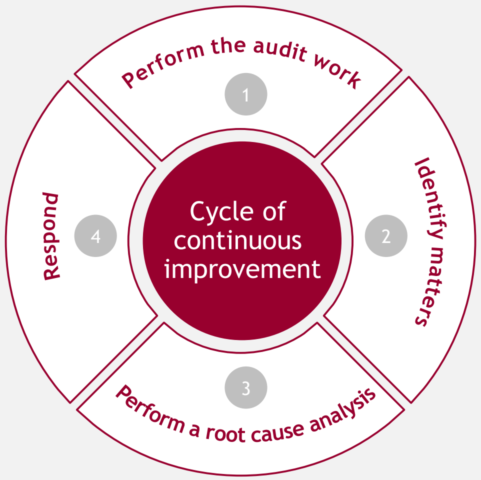
Considerations of how to address:

- Behavioural matters
- Operational changes required
- Cultural matters to be escalated

Responses may include:

- Updating operational practices
- Embedding matter into performance review and development process for staff
- Staff coaching
- Amending audit approach firm-wide or for specific assignments
- Targeted messaging to relevant audiences (e.g. grades, ranks or sector specialists)
- Updated guidance material

Responses inform training plans



Nature of matters may be:

- Client/assignment specific issues
- Common findings/repeating issues that have need to be tracked and/or escalated
- Firm-wide matters
- “Best practice” examples

May be at Individual assignment or ‘whole-firm’ level:

- Identification and assessment of root cause
- Productive process to learn from matters and improve quality
- “Best practice” examples treated in the same way as “issues”
- Consideration of appropriate responses to issues identified, proposed and escalated as appropriate

FOR MORE INFORMATION:

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