Report to the Standards and Audit Committee

RUNNYMEDE BOROUGH COUNCIL

Audit Progress Report: year ended 31 March 2020

IDEAS | PEOPLE | TRUST

Agenda Item 11

CONTENTS

WELCOME

Contents

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

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

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

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

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

Steve Bladen, Director
For and on behalf of **BDO LLP**, Appointed Auditor

24 May 2022

Steve Bladen
Engagement lead

t: 020 3860 6563
e: steve.bladen@bdo.co.uk

Matthew Vosper
Audit Manager

t: 020 7651 1593
e: matthew.vosper@bdo.co.uk

OVERVIEW
Executive summary

Contents

Overview

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

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

We have set out the outstanding matters on pages 40 and 41 of our report.

We have made the following changes to our risk assessment:

- Escalated the risk relating to the non-collection of receivables from normal to significant, reflecting the impact of the COVID-19 pandemic; and
- Identified a new risk around going concern, again reflecting the potential impact of the COVID-19 pandemic on the Council’s finances.

Furthermore, implementation of IFRS 16 has been delayed to 2022/23 and therefore this was no longer considered a material risk of misstatement.

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

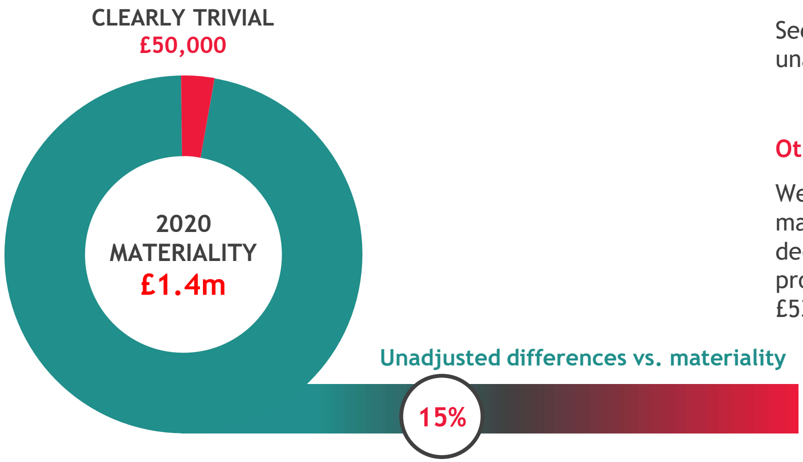
THE NUMBERS
Executive summary

Contents

Final materiality

Group final materiality was determined based on gross expenditure.

Changes were made to planning materiality as a result of lower gross expenditure compared to the prior reporting period. Our Group materiality level was set at £1.4 million.



Material misstatements

Based on the work we have completed to date, our audit identified the following material misstatements:

- The value of other land and buildings was overstated by £1.6 million in the draft accounts; and
- Within the Group financial statements, assets held by the Council's wholly owned subsidiary have been reclassified from property, plant and equipment to investment property.

See page 29 for details of the unadjusted audit differences.

Other misstatements

We identified one further error which management have corrected which has decreased the Group's surplus on the provision of services for the year by £533,000.

Unadjusted audit differences

There are four unadjusted audit differences identified by our audit work which would increase the surplus on the provision of services for the year of £31.5 million by £208k and decrease net assets of £346.3 million by £103k.

We consider these differences to be immaterial to the financial statements.

See page 25 for details of the unadjusted audit differences.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group. This objective has been achieved.

Financial reporting

Based on the work we have completed to date:

- We have not identified any non-compliance with Group accounting policies or the applicable accounting framework. No significant accounting policy changes have been identified impacting the current year.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.

Other matters that require discussion or confirmation

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

Independence

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

OUR METHODOLOGY
Summary

We obtain our audit evidence through substantive testing

As part of our risk assessment procedures we documented the systems and controls in place insofar as they are relevant to the preparation of the financial statements. Given the control activities we identified and the nature of activities, we determined that substantive testing to directly verify items in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.

AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 17 March 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management 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	No	No	Yes
Revenue and expenditure recognition	Significant	No	No	No	No	No
Valuation of non-current assets	Significant	Yes	Yes	Yes	No	Yes
Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
Allowance for non-collection of receivables	Significant - moved to significant from normal since planning	Yes	No	No	No	Yes
Disclosure of going concern	New significant risk	Yes	No	No	No	Yes
Use of resources (Sustainable finances)	Significant	Yes	No	No	To be confirmed	To be confirmed
Use of resources (Egham Gateway West Development)	Significant	No	No	No	To be confirmed	To be confirmed

Areas requiring your attention

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	
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

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.

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. We determined key risk characteristics to filter the population of journals;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias. This included non-domestic rates (NDR) appeals provision and non-collection of receivables;
- Evaluated whether there were any significant transactions outside the normal course of business, or that otherwise appeared unusual;
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement;
- Tested a sample of additions to non-current assets and investment properties to ensure correct classification; and
- Tested journals relating to the acquisition of non-current assets and investment properties.

Results

Our audit work on journals included isolating certain journals with the following risk characteristics: posted by senior members of the finance team; large value items posted after the reporting period end; postings on weekend/bank holidays; entries containing specific text; postings to infrequent codes; and by infrequent users. Our work is complete and subject to final review currently we have not identified any significant issues.

We have assessed and corroborated significant management estimates and judgements in the following key areas:

- Valuation of land and buildings (see page 13)
- Pension liability (see page 16)
- Non-domestic rates appeals provision (see page 20)
- Non-collection of receivables (see page 210
- Accruals (see page 12)
- Depreciation/Amortisation (see page 13)

We have found no evidence of management override or bias for these estimates to date.

Discussion and conclusion

Our audit work has not identified any issues to bring to the Committee's attention.

MANAGEMENT OVERRIDE OF CONTROLS (2)

Significant estimates and judgement

Contents

Non-domestic rates appeals provision

Overview and discussion

The Council recognises a provision for business rate appeals of £1.04 million, with the total provision for the Collection Fund being £2.59 million. The Council performs their own in-house assessment to calculate the provision, based on outstanding records provided by the Valuation Office.

As part of our audit procedures, we obtained and reviewed the updated provision calculation as at March 2020. Management have used a success rate of 5.69% to base the potential future outlay against the collection fund. This has increased from the prior year when a percentage of 2.5% was used for the success rate. Based on the settled claim success rate we are satisfied with this percentage.

No issues have been identified as a result of our testing.

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

Accruals

Overview and discussion

The Council recognises accruals at the reporting period date split in the Trade payables and Other payables balances in the Statement of Accounts. The biggest accrual recognised is for interest payable at £3.2m. Other accruals recognised include annual leave entitlement at year end of £315k. The Council uses judgements and estimates to calculate accruals recognised for any expenditure relating to the current year for which payment has not been made by the reporting period end.

We tested accruals within our payables testing. We did not identify any unreasonable estimates and no issues have been identified as a result of our testing.

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

MANAGEMENT OVERRIDE OF CONTROLS (3)

Significant estimates and judgement

Contents

Depreciation and amortisation

Overview and discussion

In the 2019/20 accounts the Council charged £6.4 million in depreciation and £106k in amortisation to the CIES.

The depreciation charged represented an increase of £2.3 million on the charge in 2018/19. This was related to an increase in depreciation charged on Council Dwellings. Council Dwellings were revalued as at 31 January 2020. While the valuation of some beacons increased, the useful economic lives of these assets did not, resulting in an increased depreciation charge compared to the prior year.

We tested a sample of depreciation charges in the year to ensure the calculation is correct and the useful economic lives are reasonable.

Our testing has not identified any issues.

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

REVENUE AND EXPENDITURE RECOGNITION

Auditing standards presume that revenue and expenditure recognition presents a fraud risk.

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

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.

Work performed

We carried out the following planned audit procedures:

- We tested an increased sample of revenue grants included in net cost of services income to documentation from grant paying bodies and checked whether there was any recognition criteria to meet;
- We tested an increased sample of investment property income to supporting documentation, including lease agreements, contracts and rent reviews;
- We tested an increased sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correcting accounting period; and
- We tested a sample of manual accruals.

Results

We sample tested the grants received in year, including the material receipts. None of these grants had conditions attached to their provision. The main grant received by the Council is the DWP grant for housing benefit subsidy of £19.5 million. Other grants received from Homes England and Surrey County Council had no conditions attached.

Through our extended testing on investment property income and expenditure around the year end we did not identify any errors. We also did not identify any errors through our testing of manually accrued expenditure at the reporting period end.

We tested an increased sample of expenditure items around the reporting period end. We did not identify any issues with the timing of recognition of expenditure.

Discussion and conclusion

Our audit work did not identify any issues.

VALUATION OF NON-CURRENT ASSETS

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	■

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. At 31 March 2020, the Council held dwellings of £291 million, other land and buildings of £80 million, and investment property of £523 million.

Valuations of property assets are complex, and the estimates and judgments made by management have a significant impact on the value of those assets. We also note that the Council changed 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.

Work performed

We carried out the following planned audit procedures:

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

Results

In year, the Council appointed Wilks, Head & Eve (WHE) to carry out the expert valuation of properties for the reporting period date 31 March 2020.

The valuer carried out the valuation as at 31 January 2020, they then provided market data and analysis to index their valuations to 31 March 2020.

The valuer reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA10 due to the on]going Covid-19 pandemic and uncertainty relating to Brexit at the reporting period date. The Council have made clear reference to this in Note 13 in the Statement of Accounts informing the user of the accounts that less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert. We reviewed the valuations provided and the valuation methodology applied and, in all cases confirmed that the basis for valuations is appropriate and in accordance with the requirements of the Code.

VALUATION OF NON-CURRENT ASSETS (2)

Significant estimate and judgement

Results (continued)

We tested the input data used by the valuer back to available source information and also tested valuation movements against independent benchmarking data showing indices of price movements for similar classes of assets. We followed up valuation movements that appeared unusual against indices, or any assets which had material movements since the last valuation. We also confirmed that any non-current assets not revalued in year had been assessed to confirm their value was materially correct at the reporting period date.

Council dwellings - £291 million (2018/19: £294 million)

The Council dwellings portfolio was subject to a valuation by the new valuer in 2019/20. They are recognised on an Existing Use Value - Social Housing (EUV-SH) basis which is broadly based on the vacant possession value. This is subsequently adjusted by a factor of 33% to reflect the difference between private open market rent and social rent at a regional level. The valuer has applied the beacon methodology in determining the valuation of the portfolio. The portfolio is divided in Asset Groups which reflect the areas properties are located. Similar properties within Asset Groups are then divided into "Archetypes". Each Archetype will then have a beacon property assigned which is the representative base value for that Archetype group.

As the valuation of the portfolio was at 31 January 2020, the valuer provided a market review to indicate the level of change between the valuation date and the reporting period date (31 March 2020). The valuer confirmed that the likely movement in the portfolio valuation was between 0% and 0.5%. We assessed comparative data and concluded that there was unlikely to be a material movement between the valuation date and the reporting period end date. We are satisfied with the valuer's work and explanations provided.

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

VALUATION OF NON-CURRENT ASSETS (3)

Significant estimate and judgement

Investment property - £522 million (2018/19: £479 million)

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rental yields. The Council must also adhere to the requirements of IFRS 13 which sets out a fair value hierarchy based on the category of inputs used in deriving a valuation. In a change from the prior reporting period, the Council have designated their investment property as being derived from Level 2 inputs - quoted prices other than quoted prices in Level 1 that are observable for the asset. Previously the Council disclosed that valuations were based on Level 3 input data, i.e. unobservable inputs where there is little market data or market activity. This change has not impacted on the either valuation brought forward or the updated valuations for 2019/20. We are content with this change in disclosure and are in agreement that there is sufficient observable inputs to determine the valuation.

The whole of the Council's investment portfolio was subject to a valuation as at 31 January 2020. As part of our testing we agreed rental values used in the calculations to signed rental agreements and obtained explanations of any variances. We also set expectations for the yield prices using benchmark data and compared these to figures used in the valuer's calculations.

After removing the impact of acquisitions in year (Honeywell House) the value of investment property increased by £11.2 million. The majority of this valuation gain related to two properties: Pine Tree Estate Business Park and Addlestone One, Market which had a combined gain of £11.8 million. We challenged the valuer on the judgements used in the calculation and found that lower yields in perpetuity were used because the properties were of a high standard, in demand, a good location and had established occupiers.

One unadjusted error has been identified from the audit process. A new lease agreement was not provided to the valuers in a timely manner which meant the property valuation was understated by £167,0000.

We are satisfied the assumptions applied in the valuations are reasonable.

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

Other land and buildings - £74 million (2018/19: £81 million)

Other land and buildings are measured at fair value, determined as the amount that would be paid for the asset in its existing use (EUV) or if the asset is of a specialist nature then it is measured at Depreciated Replacement Cost (DRC). The other land and buildings assets were not revalued in year. The valuer provided an average indexation loss for the period 1 April 2019 to 31 March 2020 of -4% as part of their market review. The biggest asset this applied to was Egham leisure centre which decreased in value by £781k.

Initially the Council had not included this adjustment to the asset values in the draft accounts presented for audit. On discovery of this indexation provided by the valuer, management have put through an adjustment to recognise the drop in value, this amounted to a fall of £1.6 million and has been reflected in the final accounts.

As these assets were not revalued in year we conducted our own assessment based on available market data over the past three years (some assets were last revalued in 2016/17). We are satisfied that the valuations recorded in the final accounts are reasonable for the Council.

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

VALUATION OF NON-CURRENT ASSETS (4)

Significant estimate and judgement

Surplus assets - £29 million at Group level (2018/19: £ 29 million)

The surplus assets were revalued at the group level in year. These assets are recorded as surplus assets because they will be sold by the Council in the future and include the Addlestone One development as well as the properties held by the subsidiary RBCI.

We have tested the input details provided to the valuer back to source documentation as well as reviewing the key assumptions and judgements applied by the valuer in assessing the value of these assets. We have also confirmed that there has been no profit or loss recognised on disposals that would have to be adjusted in the Group accounts.   There was one adjusted error to the surplus assets balance recorded in the Group. They were reduced by £533,000 being the value of a café that was erroneously included within the investment revaluation in RBCI. There were two unadjusted errors noted which would have had the net impact of increasing the surplus assets valuation by £113,000.

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

Vehicles, plant, other equipment and community assets - £9.8 million (2018/19: £10.3 million)

These assets are all held at historic cost with no revaluation in year. There have been minimal amounts of movement in these asset categories in year with minimal additions. Community assets are mainly open spaces and recreation land, with an element (£4.8 million) held at historical cost but not deprecated because it is deemed to have an indefinite useful economic life. The Council review the position annually to ensure the carrying value of assets is not materially different to the current value and they use the market review conducted by the valuer to inform this.

We are content with this recognition criteria and assessment made by the Council.

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

Vehicles, plant, other equipment and community assets - £9.8 million (2018/19: £10.3 million)

The value of Assets Under Construction increased significantly over the reporting period by £24.1 million. Major spending in year include expenditure on the Egham Regeneration project (£9.3 million) and the purchase of the Chertsey Business Park and development costs (£11.5 million). These assets are measured at cost and not depreciated until the asset becomes operational.

We are content with the classification of this expenditure as an Asset Under Construction, and that there is no indicator of impairment as at 31 March 2020.

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

Contents

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	
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 Council's pension fund deficit at 31 March 2020 was £46.2 million (2018/19: £46.6 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.

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; and
- Checked that any significant changes in membership data have been communicated to the actuary.

Results

Our review of the reasonableness of the assumptions used to calculate the present value of future pension obligations is noted on the following page.

We have agreed the disclosures in the accounts to the information provided by the actuary. We found one disclosure error that has been corrected by management.

We have received a response from the pension fund auditor in response to our request for assurances over the controls operated by the administering authority over the accuracy of the membership data and the information communicated to the actuary to support the liability valuation at 31 March 2020. This provides assurance that controls over pensions data and information provided to the actuary are adequate.

We found one unadjusted error during our work which related to the actuary using an estimate of the pension fund's investment assets rather than actuals. This has resulted in Runnymede's share of plan assets being overstated by £383,000 (see page 29 for details).

Discussion and conclusion

Except for the matter noted above, our audit work did not identify any issues.

Contents

VALUATION OF PENSION LIABILITY (2)

Significant estimate and judgement

Gross pension liability £137 million (2018/19: £148 million)

The Council’s pension liability has decreased from £147.959 million to £137.219 million and it’s share of the scheme assets also decreased from £101.36 million to £91.101 million. The net deficit decreased slightly by £481k to £46.118 million.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- CPI increase	1.90%	1.80 - 2.00%	Reasonable
- Salary increase	2.80%	1.80 - 2.90%	Reasonable - short term assumption of +1% and post 2020 set in line with RPI
- Pension increase	1.90%	1.80 - 2.00%	Reasonable
- Discount rate	2.30%	2.30%	Reasonable
Commutation	25%/63%	25 - 75%	Reasonable - pre-2008 25% and post-2008 63%
Mortality:			
- Male current	22.9 years	21.6 - 23.3	Reasonable
- Female current	25.7 years	24.6 - 26.3	Reasonable
- Male retired	22.1 years	20.5 - 22.2	Reasonable
- Female retired	24.3 years	22.9 - 24.3	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the Council’s actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

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

ALLOWANCE FOR NON COLLECTION OF RECEIVABLES

Contents

20

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

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 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.

We upgraded this to a significant risk from a normal risk. We have identified the impact of COVID-19 as having a potentially significant impact on the bad debt allowance recognised in the accounts. There is significant risk that this has been under estimated in the current climate and has not allowed for the very real issues of debt collection in an environment where many businesses may not be able to pay their debts to the Council at all.

Work performed

We carried out the following planned audit procedures:

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

Results

Our review of the appropriateness of the allowance for non-collection of receivables is noted on the following pages with details of the estimates and our view of their reasonableness.

We are content with the models used by the Council for the recognition of bad debt allowances.

The Council have appropriately considered the effects of COVID-19 on businesses, government and individuals and built this into their calculations for non-collection of debts.

Discussion and conclusion

Our audit work did not identify any issues.

ALLOWANCE FOR NON COLLECTION OF RECEIVABLES (2)

Council tax arrears (total collection fund £2.084 million and the Council’s share £381k)

The Council has recognised an allowance for non-collection in relation to its share of the council tax arrears of £214k against its share of the arrears of £381k (total collection fund arrears is £2.084 million). The Council’s provision has increased by £30k from the prior year, with the ratio of allowance for non-collection increasing from 54% to 56%. The provision is estimated using historic collection rate information from last 4 years.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of arrears.

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

NDR arrears (Total collection fund £748k and the Council’s share £299k)

The Council has recognised an allowance for non-collection in relation to its share of the NDR business rates arrears of £241k against its share of the arrears of £299k (total collection fund arrears is £748k). The Council’s provision has increased by £70k from the prior year. The Coronavirus pandemic has meant that many businesses will struggle with solvency during 2020/21. As a temporary measure for 2019-20, the uncollectable % of the outstanding arrears cases has been increased to 100% (was 95%) for 2017/18, 95% for 2018/19 (was 80%) and doubled to 70% for 2020/21 (was 35%).

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of arrears.

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

General Debtors (£3.25 million)

The Council has recognised an allowance for non-collection of general debtors of £1.29 million on total debt of £3.25million. This has increased by £97k from the prior year. The provision is estimated using a year end aged debtors report alongside a judgemental recovery scale based upon historical recovery information. The Council has also assessed the expected credit loss impairment by making an adjustment for future losses. They have considered how COVID-19 would have impacted businesses going forward particularly their ability to keep to rental agreements. In Q2 2020 the Council had collected 80% of expected income from investments, well above the national average.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

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

ALLOWANCE FOR NON COLLECTION OF RECEIVABLES (3)

Council tenants arrears (£400k)

The Council has recognised an allowance for non-collection of Council Tenant Arrears Debt of £252k on total debt of £400k. This has increased by £53k from the prior year. The provision is estimated using a year end aged debtors report alongside a judgemental recovery scaled provided based upon historical recovery information.

We have reviewed the methodology and we are satisfied that this falls within reasonable range for non-collection of debt.

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

Contents

DISCLOSURE OF GOING CONCERN

Contents

23

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

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

Work performed

We planned to undertake the following audit procedures:

- Review the budgets and cash flow forecasts for indications of going concern issues; and
- Review any required going concern disclosures in the financial statements to ensure they set out any potential impacts of material uncertainties.

Results

Our work in relation to going concern is in progress. We will report our findings in relation to this risk in our final Audit Completion Report.

OTHER MATTERS

Contents

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

Issue	Comment
Restatement of prior period (2018/19) amounts	Within the draft group financial statements, residential property assets held by the Council's wholly owned subsidiary, RBC Investments (Surrey) Limited have been classified as surplus assets with property plant and equipment. Having considered the nature of these assets we have concluded that these assets are held purely for rental income. Under the CIPFA Code, these assets meet the definition of an investment property and in our judgement should be recorded as such on the Council's group balance sheet. Amounts relating to the prior (2018/19) period have also been restated. The effect of this restatement is to reduce the value of property, plant and equipment by £27.1 million, with a corresponding increase in the value of investment property. There is no impact on the Council's overall expenditure, or the Council's useable reserves. The Council have added a narrative note to the financial statements to explain the impact of this adjustment.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

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.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

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

Laws and regulations

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

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

Group matters

We were not required to issue group instructions to the component auditors as the transactions and balances recorded for group entities are controlled by the Council and we were able to directly audit these.

We have no matters to report on the review of the Council's subsidiaries.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

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

There are four unadjusted audit differences identified by our audit work which would increase the surplus on the provision of services for the year of £31.5 million by £208k and would decrease net assets of £346.3 million by £103k.

There would be no impact on the general fund balance. We consider the remaining differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Surplus on the provision of services for the year before adjustments	(31,447)				
Adjustment 1: Increase in net pension liability due to actuary using an estimate for pension fund assets rather than actuals. RBC net share of asset reduction has been calculated for the estimated impact on the net liability.					
DR Pension reserve				383	
CR Net pension liability					(383)
Adjustment 2: An updated lease agreement for an investment property was not provided to the valuers which would have increased the valuation of the property.					
DR Investment property valuation				167	
CR Gain on revaluation of non-current asset	(167)		(167)		
Adjustment 3: A café owned by the Council was unexpectedly included within the subsidiary investment property revaluation. The revaluation decreased the property value but due to timing was not updated in the accounts.					
DR CIES	229	229			
CR Property, plant and equipment					(229)

UNADJUSTED AUDIT DIFFERENCES: DETAIL (2)

Details for the current year

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	**NET DR/(CR) £'000**	**DR £'000**	**(CR) £'000**	**DR £'000**	**(CR) £'000**
Adjustment 4: The valuation for the RBCI investment property of St Jude's Cottage excluded the valuation of one flat.					
DR Property, plant and equipment				342	
CR CIES	(342)		342		
Total unadjusted audit differences	**(280)**	**229**	**(509)**	**892**	**(612)**
Surplus on the provision of services for the year if above issues adjusted	**(31,727)**				

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

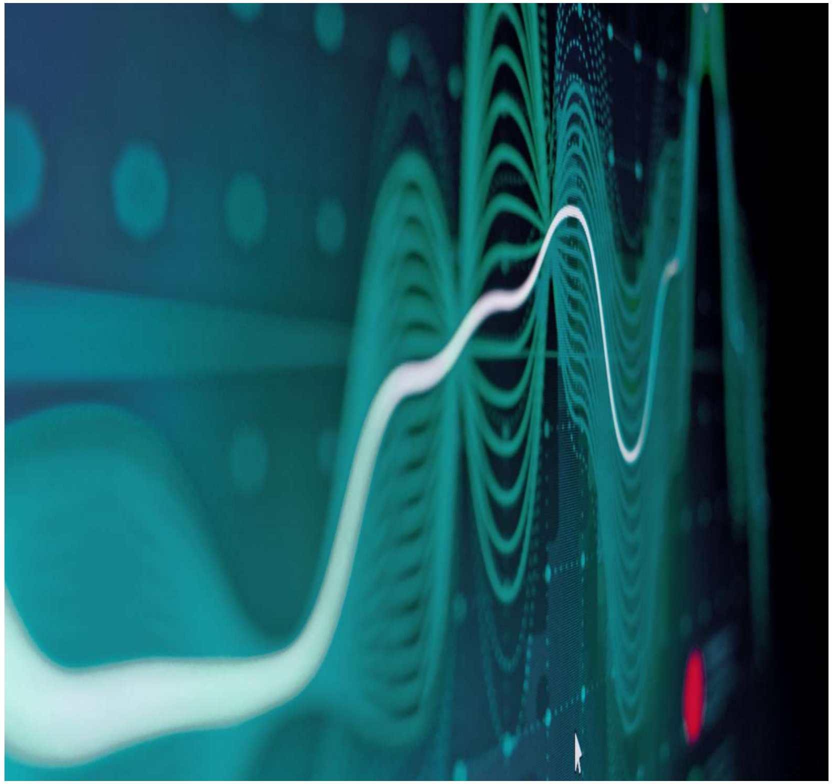
We are required to bring to your attention other financial reporting matters that the Standards and Audit Committee is required to consider.

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

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents



There were three audit differences identified by our audit work that were adjusted by management. These reduced the Group's surplus on the provision of services of £31.5 million by £533k, with a corresponding reduction in the value of net assets.

As noted on page 23 of this report, management have corrected the brought-forward Group balance sheet for an adjustment made in the prior year.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Surplus on the provision of services for the year before adjustments	(31,447)				
Adjustment 1: Other land and buildings assets have been amended to reflect a -4% adjustment identified by the valuer.					
DR Revaluation reserve				1,591	
CR Other land and buildings valuation					(1,591)
Adjustment 2: A café owned by the Council was incorrectly included within the subsidiary investment property revaluation. This has led to an overstatement of the Group balance sheet which has double counted the café.					
DR Financing and investment expenditure	533	533			
CR Property, plant and equipment					(533)
Adjustment 3: Reclassification within group accounts of assets held by wholly owned subsidiary from surplus assets to investment property					
CR Property plant and equipment - Surplus assets					(28,802)
DR Investment property				28,802	
Total Adjusted audit differences	**533**	**533**	**0**	**30,393**	**(30,926)**
Surplus on the provision of services for the year before adjustments	**(30,914)**				

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

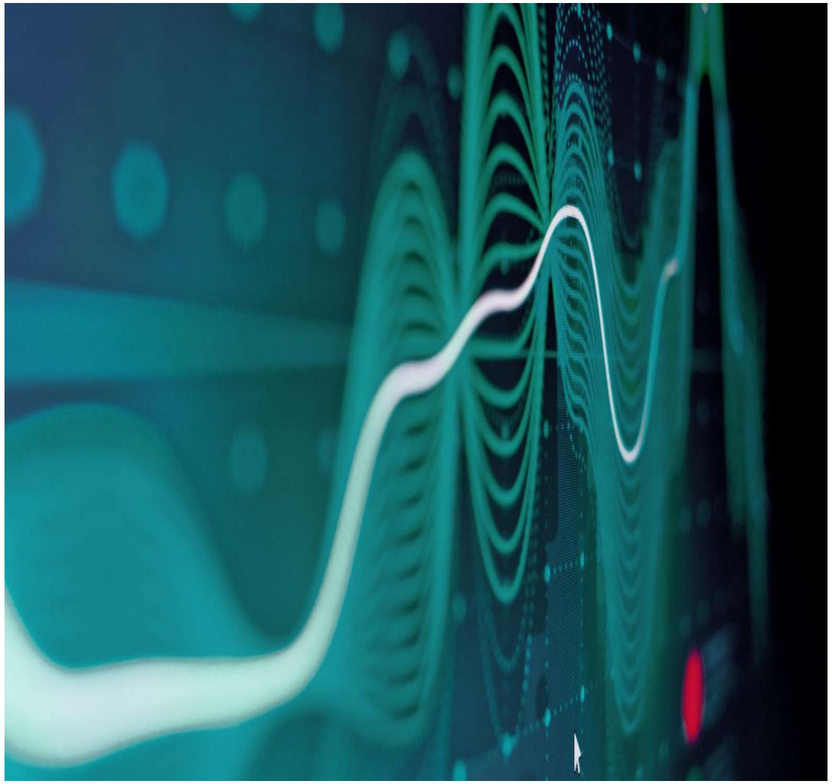
Disclosure omissions and improvements

Contents

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

The following adjusted disclosure matters were noted:

- The HRA provision figure of £268,750 was updated in the accounts;
- The percentage of HRA rent in arrears was initially disclosed incorrectly and should have been 2.1% as now updated in Note 41;
- The borrowings table showing maturity ages between 5 and 10 years was overstated by £10k and the category showing maturity ages between 10 and 15 years was understated by £10k in the draft accounts;
- Current value of short term creditors was updated to £17,784k in Note 18;
- NNDR ratepayers were included in the financial instruments short term debtors in the draft accounts in Note 18. A total of £229k was removed from this disclosure note;
- Long-term debtors and short-term debtors figures were updated to be disclosed separately in Note 18 financial instruments;
- The impairment of council dwellings of £1.3 million in Note 13 was updated in Note 36 to ensure both disclosure notes agreed;
- The pension disclosure in Note 33 was updated to reflect the correct signs for the movement;
- The Council as a lessor note was updated as it did not agree to supporting documentation; and
- Additional narrative included in the Group Accounts to disclose the prior period adjustment.



REPORTING ON OTHER INFORMATION

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

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

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council met this deadline. HM Treasury no longer require certification of 2019-20 DCT data.

Contents

OVERVIEW

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

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

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

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

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

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances (use of resources)	Sustainable resource deployment	Significant	Our use of resources work is currently in progress.
Egham Gateway West Development (use of resources)	Sustainable resource deployment/Informed decision making/Working with partners and other third parties	Significant	Our use of resources work is currently in progress.

SUSTAINABLE FINANCES (USE OF RESOURCES)

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

Risk description

The financial environment in which the Council operates continues to be challenging, and presents a number of risks to the financial sustainability of the Council. 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.

Work performed

We planned to undertake the following planned audit procedures:

- 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.

Results

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 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 short-term economic shocks, or a more prolonged economic downturn (for example, from a reduction in the yield available from commercial property).

The Council's latest Medium Term Financial Strategy covers the period 2021/22 – 2024/25. Over this period, the Council's planned expenditure is expected to exceed income by £4.3 million. The Council expects to close this gap through the use of reserves, with a consequent reduction in general fund useable reserves over this period, from £15.2 million at the start of the 2021/22 financial year, to £10.9 million at the end of the 2024/25 financial year.

We are satisfied that the Council has a good understanding of its financial position, the cost pressures it faces, and its likely level of government funding. The Council has also taken some steps to manage its financial position, including

- Budget adjustments, comprising a combination of growth and budget reductions of £3 million have been identified over the period of the MTFS. It is important to note that while these have been identified, they have not yet been delivered in all cases.
- The establishment of two earmarked reserves to manage risks around dilapidation costs, and to fund any significant reductions in income e.g. tenants requiring less office space due to homeworking, while some significant leases have break clauses between 2026 to 2028.
- General Fund working balances, while reducing over the period of the MTFS, are forecast to be £10.9 million at 31 March 2025, above the minimum level of £3 million determined by the Council's s151 officer.

Our use of resources work is currently in progress. We will report our findings in relation to this risk in our final Audit Completion Report. Notwithstanding this, it is important that the Council continues to monitor its financial position closely, and to take further steps to reduce its reliance on general fund balances to balance its general fund budget.

EGHAM GATEWAY WEST DEVELOPMENT (USE OF RESOURCES)

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

Risk description

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.

Work performed

We planned to undertake a detailed review of the project and focussed on the following criteria:

- 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.

Results

Our use of resources work is currently in progress. We will report our findings in relation to this risk in our final Audit Completion Report.

SIGNIFICANT DEFICIENCIES

Contents

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 Standard and Audit Committee.

As the purpose of the audit is for us to express an opinion on the Group's financial statements and the Council's use of resources, 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.

Based on the work we have completed to date, we have no significant deficiencies to report to you.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Assets not revalued in year	The Council obtained a valuation in year on the investment properties, surplus assets and the council dwellings. The Council employs a 4-year rolling programme for asset revaluations, except for investment properties which are revalued every year. At each reporting period end an assessment of the value of all properties under the revaluation model must be made. We found one error (see significant risk on other land and buildings valuations page 18) where an indexation update, provided by the valuer, had been missed. Without a formal assessment there is a risk that there are material differences between the reported asset values and actual values.	The Council should conduct a formal assessment of the value of the asset portfolios at the reporting period end. The Council do this in practice but there is no evidence to support this review. We would suggest a formal assessment is prepared and reviewed to offer members assurance that the asset values at reporting period end are not materially misstated.	Management response to be provided.

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Cash reconciliations	Cash and bank account reconciliations are currently excessively complicated and performed by one staff member by hand. This is not deemed to be the most efficient method for reconciling cash accounts and there is a higher risk for human error that won't be picked up at the review phase. The knowledge information on the performance of these reconciliations is also locked with one person and this is currently not easily transferrable.	A review into the process would be recommended with the output to enable the a more streamlined but no less effective reconciliation process that reduces the risk of human error and can be transferred to other officers when needed.	Officers will review the process once the new Income Management System is fully implemented.	Accepted.
Property valuations	There were some difficulties this year in the year end property valuation process. Miscommunication between the Council and the valuers meant that a lot of assumptions had to be built into the valuation report. These assumptions were then queried by the Council when the valuation report was received. Without effective dialogue between the Council and the valuers there is a risk that valuation figures are materially incorrect in the financial statements.	We are aware that the valuation contract is up for renewal. We would encourage the Council to ensure processes are in-place to create an effective dialogue between the Council and the valuers. We suggest the Council also creates and effective in-house communication line between all relevant parties including Commercial Services and Finance.	The new Corporate Head of Assets and Regeneration has taken over responsibility liaising with the external valuers to streamline the communication process.	This recommendation is considered closed.
Prior year deficiency	There is inherent uncertainty in applying indices over 3 years for council dwelling valuations and 'spot checks' should be undertaken on a sample of Beacons each year.	We recommend that the valuer undertakes some 'spot checks' each year on a sample of Beacons to confirm that there has not been any material drift in the valuations in the dwellings between the formal valuations.	The external valuer now provides the Council with a post year end Market Review Report for the local area which includes Housing. Appropriate adjustments to the valuations are made for any significant movements.	This recommendation is considered closed.

Contents

INDEPENDENCE

Contents

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 Group 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 Standards and Audit Committee in advance in accordance with the Group'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 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 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.

FEES

Contents

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	34,754	34,754	34,754
• Additional audit fee	(2) TBC	(2) TBC	(1) 38,572
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	(3) -	15,000	13,208
• Pooling of housing capital receipts return	(3) -	2,250	2,250
Total fees	**TBC**	**TBC**	**88,754**

Notes

(1) The 2018/19 planned audit fee is the Public Sector Audit Appointments Ltd (PSAA) published scale fee. We have sought a variation to the scale fee to reflect the Council's significant investment in commercial property in recent years, and changes in audit scope linked to the current audit requirements for property assets, pension liabilities, group accounts, and whole of government accounts. This is currently subject o review by PSAA Ltd.

(2) We expect to submit a variation to the fee for 2019/20; in the first instance we will discuss that with the Chief Finance Officer, and then seek approval for that from PSAA Ltd. We will confirm the extent of any proposed additional fee in our final audit completion report and annual audit letter.

(3) Work is ongoing for our non-audit assurance services; we will confirm our final fee in our annual audit letter.

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

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

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

What we don't report

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

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Any fraud or suspected fraud issues.	No exceptions to note.
3	Any suspected non-compliance with laws or regulations.	No exceptions to note.
4	Significant matters in connection with related parties.	No exceptions to note.
	Group matters	
5	Limitations on the audit where information was restricted.	No exceptions to note.
6	Any fraud or suspected fraud at group or component level.	No exceptions to note.

COMMUNICATION WITH YOU

Contents

Those Charged with Governance (TCWG)

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

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	17 March 2020	Standards and Audit Committee
Audit Progress Report	20 July 2021	Standards and Audit Committee
Audit Progress Report	24 May 2022	Standards and Audit Committee
Final Audit Completion Report	TBC	Corporate Management Committee
Annual Audit Letter	TBC	Corporate Management Committee

OUTSTANDING MATTERS

Contents

Audit Sector developments

The sector has seen a number of pressures arising since the faster close agenda brought the reporting deadline forward for the 31 March 2019 period to 31 July 2019. Only 60% of local government bodies were able to publish audited accounts by this deadline. By exception, there remain a number of 2018/19 audits outstanding to date.

The 31 March 2020 publication deadline, initially pushed back to end September 2020 from July 2020, was then further extended to 30 November 2020. However, only 45% of local government bodies were able to publish audited accounts by this extended deadline, with even traditionally better performing authorities close to or at the deadline date.

Recruitment and retention of staff with suitable public sector experience has become increasingly challenging on a national level. Added to this the increased scope of audit work, increased complexity in public sector accounts and extensive regulatory requirements have continued to add to this pressure sector wide. It has been widely recognised that the audit sector, and public sector audit specifically, requires reform to enable it to remain sustainable. The Redmond review specifically focuses on recommendations to help achieve this in the longer term.

Alongside these already present pressures, a global pandemic manifested additional impacts and pressure. New challenges of remote working, onboarding and training new staff remotely, communication, IT support and illness within the team directly impacting efficiency and delivery.

The 31 March 2021 publication deadline was set at end September 2021. Audit firms and audit regulation bodies did feedback that this was not realistically achievable. Only 9% of 2021 audits were completed by 30 September 2021, with 20% by 30 November 2021 and 40% by 31 December 2021.

Audit progress

Given existing pressures in the audit industry a strategic decision was taken to not undertake interim audits for NHS or local government, to enable previously delayed audits to be completed. The purpose of the interim audit is to bring forward several audit procedures and ease the burden on the final visit. The audit in this case was performed in one visit.

The 2020 audit has been challenging to deliver, with issues outlined above, in addition to the longer-term impacts of Covid-19 and remote working. There are several significant accounting estimates requiring management judgement, all of which require more detailed consideration in light of revised auditing standards and regulator focus, resulting in the need for more resource and specialist resource. However, it must be stressed that Council officers have, throughout, provided good quality working papers and support to our team. We will continue to work with officers towards the completion of this audit and we will update officers on progress on a regular basis.

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements and use of resources 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 Standards and Audit Committee meeting at which this report is considered:

- Completion of our work in relation to Going Concern
- Completion of work in relation to use of resources
- Completion of our subsequent events work
- Review of final version of financial statements
- Completion of final quality reviews

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')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

FRC PRACTICE AID FOR AUDIT COMMITTEES

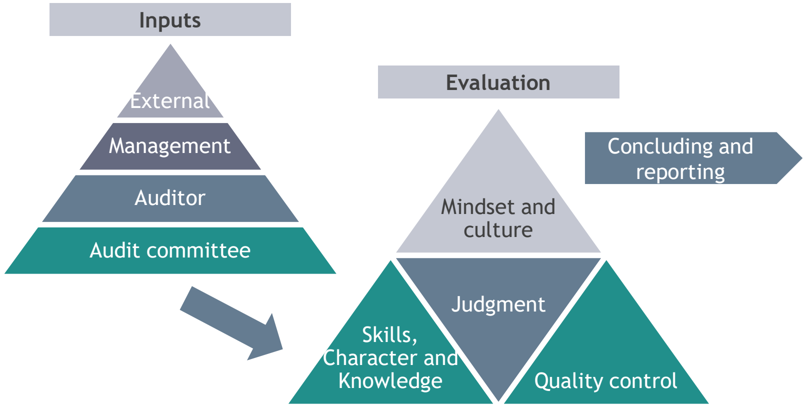
Contents

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

AUDIT QUALITY

Contents

BDO is totally committed to audit quality

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

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

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

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

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

FOR MORE INFORMATION:

Steve Bladen

t: 020 3860 6563
e: steve.bladen@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 council 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.

www.bdo.co.uk