



Report to the Audit Committee

LONDON BOROUGH OF BARNET COUNCIL

Audit Planning Report: year ending 31 March 2020

IDEAS | PEOPLE | TRUST



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WELCOME

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We have pleasure in presenting our Audit Planning Report to the Audit Committee of London Borough of Barnet 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 of the Council 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 Audit Committee meeting on 30 January 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.

Leigh Lloyd-Thomas

22 January 2020



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This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

SCOPE AND MATERIALITY

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This summary provides an overview of the key audit matters that we believe are important to the 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

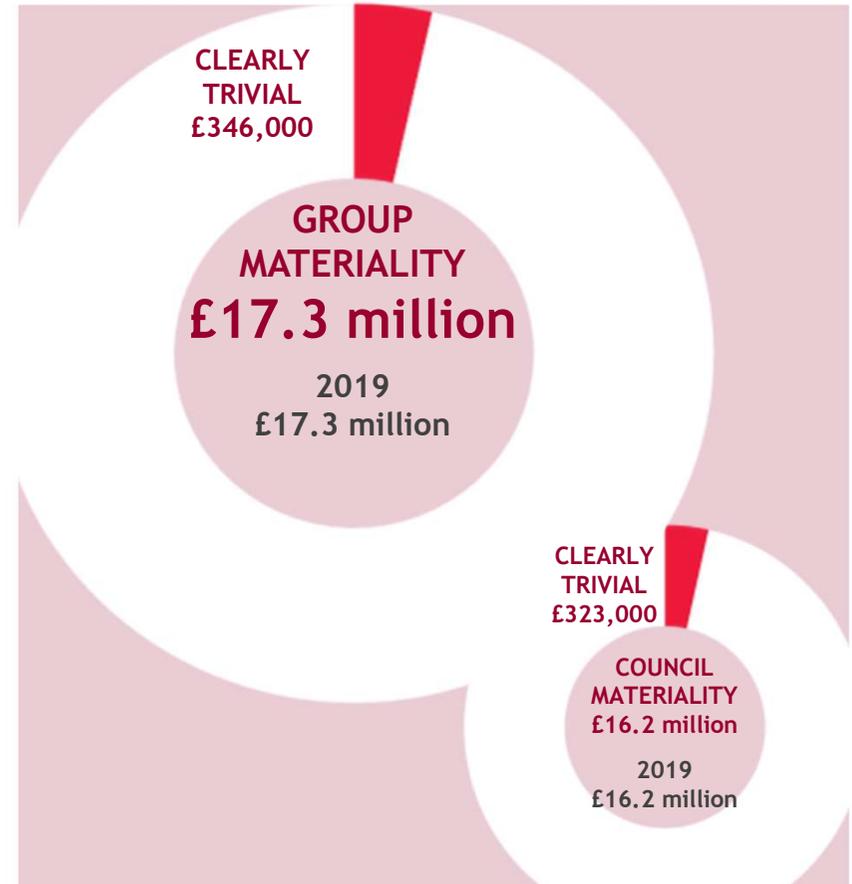
The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the 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.

Materiality

Planning materiality for the Council and Group will be set at 1.5% of gross expenditure for the year (prior year 1.5%). This will be revisited when the draft financial statements are received for audit.

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



AUDIT STRATEGY

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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.

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| Risks identified | Risk rating | Fraud risk present | Testing approach | Impact of significant judgements and estimates |
|--|-------------|--------------------|---|--|
| 1. Management override of controls | Significant | Yes | Substantive | Medium |
| 2. Recognition of grant income | Significant | Yes | Substantive | Medium |
| 3. Expenditure cut-off | Significant | Yes | Substantive | Low |
| 4. Valuation of PPE and investment property | Significant | No | Substantive | High |
| 5. Valuation of pension liability | Significant | No | Substantive | High |
| 6. Consolidation of group entities | Significant | No | Substantive | Low |
| 7. Allowance for non-collection of receivables | Normal | No | Substantive | Medium |
| 8. Related party transactions | Normal | No | Substantive | Low |
| 9. Sustainable finances | Significant | No | Detailed review of MTFS and savings plans | Medium |

INDEPENDENCE AND FEES

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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 |
|---|------------------------|------------------------|
| PSAA scale audit fee | £130,919 | £130,919 |
| Additional audit fee | ⁽²⁾ £40,000 | ⁽¹⁾ £37,822 |
| Total audit fees | £170,919 | £168,741 |
| Fees for non-audit services - audit related: | | |
| • Government grants certification | £26,750 | £29,250 |
| Total non-audit services fees | £26,750 | £29,250 |
| Total fees | £197,669 | £197,991 |

- (1) Additional fees in 2018/19 in response to issues reported in our Audit Completion Report for the year ended 31 March 2019.
- (2) We have proposed a fee variation to the PSAA scale fee for 2019/20 to be discussed with the Council's Finance staff and the Audit Committee. This reflects the additional audit work required in response to issues encountered in recent years, the increased complexity of the Group structure and component entities controlled by the Council, and significantly greater pressure on auditors to deliver higher quality audits and to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts.

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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 the return whether it is consistent with the audited financial statements. |
| Additional powers and duties | Where necessary we may be required to: issue a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review. |
| Report to the Audit Committee | Prior to the approval of the financial statements, we will discuss our significant findings with the 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

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.

| Entity | Nature of Operations | Audit classification | Reason for classification | Audit Risks | Component Materiality | Audit strategy |
|--|---|---------------------------|---|-------------|-----------------------|--|
| London Borough of Barnet Council | Provides full range of local authority services | Significant | Parent entity and significant component of the group | Risks 1-9 | £16.2m | Statutory audit performed by BDO LLP |
| The Barnet Group Limited and its subsidiaries (Barnet Homes Limited, Your Choice (Barnet) Limited, TBG Flex Limited, TBX Open Door Limited and Bumblebee Lettings Limited) | Provision of Adult Social Care Services and Housing Management Services on behalf of the Council (100% owned by the Council) | Non significant component | Below 15% of group income / assets Total income and expenditure in the entity is approximately £71 million. As the majority of transactions are with the Council, after elimination of intra-group transactions the net impact on the Group financial statements is below our group audit materiality. However, the net liabilities of the subsidiary are material as the subsidiary includes a significant pension liability. | Risk 5 | £5m | Statutory audit performed by Grant Thornton LLP |
| Barnet (Holdings) Limited and RE (Regional Enterprise) Limited (Barnet Holdings Limited holding parent with joint venture RE Regional Enterprise Limited 49% held by the Council) | Provision of development and regulatory services on behalf of the Council | Immaterial component | The Council does not include equity accounting adjustments to the carrying value of the investment in the Group financial statements as the net assets of the joint venture are not material. | N/A | N/A | Desktop review to confirm below materiality levels |

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AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS 2

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| Entity | Nature of Operations | Audit classification | Reason for classification | Audit Risks | Component Materiality | Audit strategy |
|--------------------------|--|----------------------|---|-------------|-----------------------|--|
| Inglis Consortium | Land acquisition, development and disposal (Joint venture with 13.9% held by the Council) | Immaterial component | The Council does not include equity accounting adjustments to the carrying value of the investment in the Group financial statements as the net assets of the joint venture are not material. | N/A | N/A | Desktop review to confirm below materiality levels |
| BXS GP Limited | Redevelopment at Brent Cross Cricklewood South Scheme (Joint Venture) | Immaterial component | Limited activity and transactions to date | N/A | N/A | Desktop review to confirm below materiality levels |
| Hill Green Homes Limited | Housing development (100% owned by the Council) | Immaterial component | Limited activity and transactions to date | N/A | N/A | Desktop review to confirm below materiality levels |

BDO TEAM

Team responsibilities

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given.

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

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

I am responsible for the overall quality of the engagement.



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

OVERVIEW

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.

| Description of risk | Significant / Normal risk | Overview of risk |
|--|---------------------------|---|
| 1. Management override of controls | | Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls. |
| 2. Recognition of grants income | | Auditing standards presume that income recognition presents a fraud risk. |
| 3. Expenditure cut-off | | For public sector bodies the risk of fraud related to expenditure recognition is also relevant. |
| 4. Valuation of PPE and investment property | | The valuation of land, buildings, dwellings and investment property is a significant risk as it involves a high degree of estimation uncertainty. |
| 5. Valuation of pension liability | | The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty. |
| 6. Consolidation of group entities | | Risk of errors in the consolidation of group entities due to increased inter-company activities and the different accounting framework applied by group entities. |
| 7. Allowance for non-collection of receivables | | There is a risk over the valuation of the impairment allowance for non-collection of receivables if incorrect assumptions or source data are used. |
| 8. Related party transactions | | There is a risk that related party disclosures are not complete or accurate. |
| 9. Financial sustainability | | The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these may not be delivered. |

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MANAGEMENT OVERRIDE OF CONTROLS

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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

Our audit procedures will include the following:

- Review and verification of journal entries made in the year including post year end journals relating to the current year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals and use our IT team to assist with the journal extraction;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

RECOGNITION OF GRANTS INCOME

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Auditing standards presume that income recognition presents a fraud risk.

Risk detail

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

We consider there to be a significant risk in respect of the existence (recognition) of grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

Planned audit approach

Our audit procedures will include the following:

- Test a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met.

| | |
|--|---|
| 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 | |

EXPENDITURE CUT-OFF

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

- 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

For net-spending bodies in the public sector there is also risk of fraud related to recognition of expenditure.

We consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Planned audit approach

Our audit procedures will include the following:

- Test a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

VALUATION OF PPE AND INVESTMENT PROPERTY

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The valuation of land, buildings, dwellings and investment property 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.

There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the instructions provided to the valuer and the valuer’s skills and expertise in order to determine if we can rely on the management expert;
- Confirming that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewing accuracy and completeness of information provided to the valuer, such as rental agreements and sizes;
- Reviewing assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Following up valuation movements that appear unusual or outside of our expectations; and
- Confirming that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

VALUATION OF PENSION LIABILITY

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

There is a risk that the membership data submitted in the 2019 triennial valuation and 2018/19 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:

- Reviewing the competence of the management expert (actuary);
- Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewing the controls in place for providing accurate membership data to the actuary and testing the data provided at the triennial valuation through our audit of the pension fund; and
- Checking that any significant changes in membership data since the triennial submission have been communicated to the actuary.

CONSOLIDATION OF GROUP ENTITIES

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There is a risk over the consolidation of group entities.

- 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

With increasing inter-company activities and different accounting frameworks applied by group entities, there is risk of errors in the consolidation of group entities where transactions and balances are not eliminated appropriately.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the consolidation workings to ensure that intercompany transactions and balance have been treated appropriately, with emphasis on reviewing asset transfers between group entities; and
- Reviewing the principal accounting policies applied by group entities and ensure that they have been consistently applied in the group financial statements.

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

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There is a risk over the valuation of the impairment 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, NDR, 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:

- Reviewing the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears and, for receivables classified as financial instruments, includes appropriate assumptions for expected credit losses.

RELATED PARTY TRANSACTIONS

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is a risk that related party disclosures are not complete or accurate.

- 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

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

There is a risk that related party disclosures are not complete or accurate.

Planned audit approach

Our audit procedures will include the following:

- Reviewing management processes and controls to identify and disclose related party transactions;
- Reviewing relevant information concerning any such identified transactions;
- Discussing with management and reviewing councillors’ and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertaking Companies House searches for potential undisclosed interests.

SUSTAINABLE FINANCES (USE OF RESOURCES)

The Council will need to deliver it's savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.

| | |
|--|--|
| 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 MTFS presents a balanced budget for 2020/21 with a total gap of £72 million from 2020/21 to 2024/25. Savings proposals to mitigate £35 million have been identified, leaving a gap to close of £37 million.

The Council's reserves are forecast to total £42 million at the end of 2020/21. Over the course of the MTFS this is expected to reduce to £38 million, with the non ring-fenced revenue reserves expected to be £30 million at the end of 2024/25.

The savings targets are significant and achievement of these inherently challenging. The Council acknowledges that the continued support from reserves would not be viable.

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

Planned audit approach

Our audit procedures will include the following:

- Reviewing the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Monitoring the delivery of the budgeted savings in 2019/20 and the plans to reduce services costs and increase income from 2020/21; and
- Reviewing the strategies to close the budget gap after 2020/21.

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GOING CONCERN

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Council's responsibilities

It is the responsibility of Director of Finance 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 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:

- 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
- 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:

- The 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.
- The plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances.
- The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

OTHER MATTERS REQUIRING FURTHER DISCUSSION

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Fraud

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

We have been made aware of a small number of low value actual, alleged or suspected incidences of fraud reported by the Council. We request confirmation from the Audit 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.

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.

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

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 relevant reports issued by the Council's internal audit function and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

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.

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.

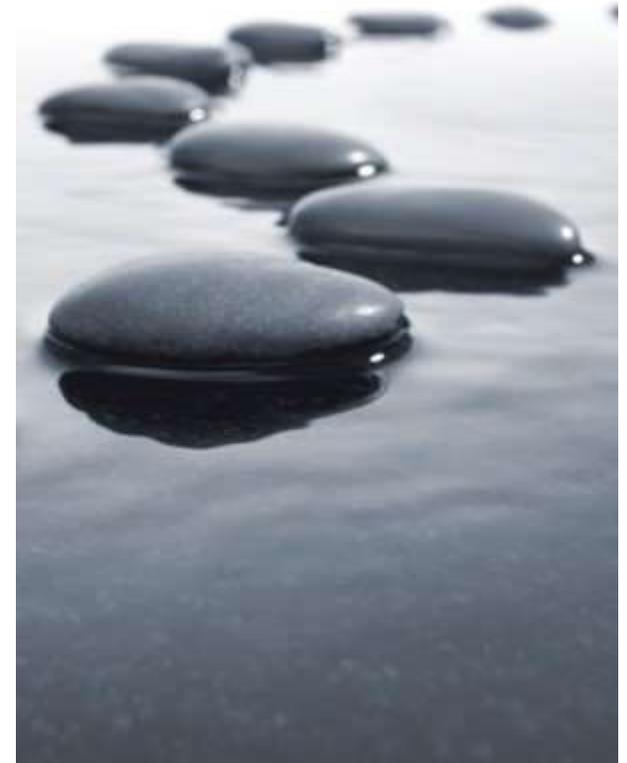
IT GENERAL CONTROLS

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

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

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

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting.



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INDEPENDENCE

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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 the following page.

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

FEES SUMMARY

Fees for year ending 31 March 2020 and prior year

| | 2019/20 | 2018/19 |
|---|------------------------|------------------------|
| PSAA scale audit fee | £130,919 | £130,919 |
| Additional audit fee | ⁽²⁾ £40,000 | ⁽¹⁾ £37,822 |
| Total audit fees | £170,919 | £168,741 |
| Fees for non-audit services - audit related: | | |
| • Certification of housing benefits subsidy claim | £19,000 | £21,500 |
| • Certification of pooled housing capital receipts return | £2,750 | ⁽³⁾ £2,750 |
| • Certification of teachers' pensions return | £5,000 | ⁽³⁾ £5,000 |
| Total non-audit services fees | £26,750 | £29,250 |
| Total fees | £197,669 | £197,991 |

- (1) Additional fees in 2018/19 in response to issues reported in our Audit Completion Report for the year ended 31 March 2019.
- (2) We have proposed a fee variation to the PSAA scale fee for 2019/20 to be discussed with the Council's Finance staff and the Audit Committee. This reflects the additional audit work required in response to issues encountered in recent years, the increased complexity of the Group structure and component entities controlled by the Council, and significantly greater pressure on auditors to deliver higher quality audits and to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.
- (3) Work is in progress to complete the certification of these returns.



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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

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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 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

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Those charged with governance

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

In communicating with the 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

These tables 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 |
|--|--------------------------|--------------------------------------|
| Leigh Lloyd-Thomas Engagement Lead | 5 years | 5 years Rotation required 2020/21 |
| Michael Asare Bediako Audit Manager | 2 years | 10 years |

Independence - audit quality control

| | Number of years involved | Rotation to take place after |
|-------------------------------------|--------------------------|------------------------------|
| Engagement quality control reviewer | 1 year | 7 years |

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MATERIALITY: DEFINITION AND APPLICATION

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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. senior manager remuneration 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



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

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

Unadjusted errors

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

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

We will obtain written representations from the Audit 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.

AQR RESULTS 2018/19

BDO performance

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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.

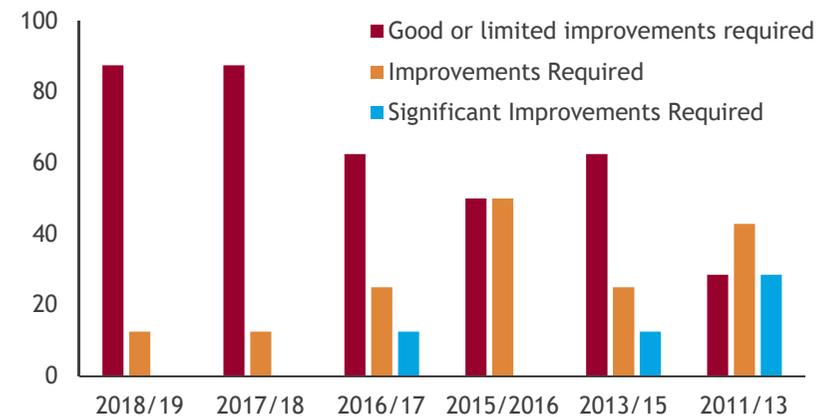
We include details of our model 'The Cycle of Continuous Improvement' on the next slide. We acknowledge that the firm has performed well over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively 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:

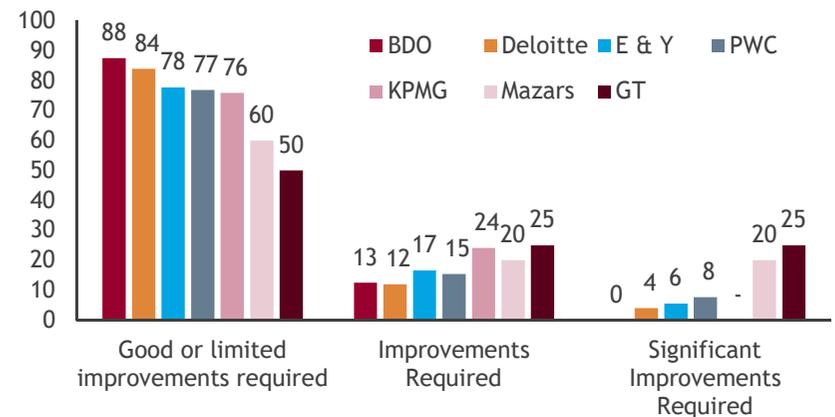
- Details of the root cause analysis we have been undertaking to address issues raised;
- The actions we have/are undertaking to address the issues raised by the AQR; and
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

More details are included in our Transparency Report which is available on our www.bdo.co.uk.

BDO AQR Results - year on year



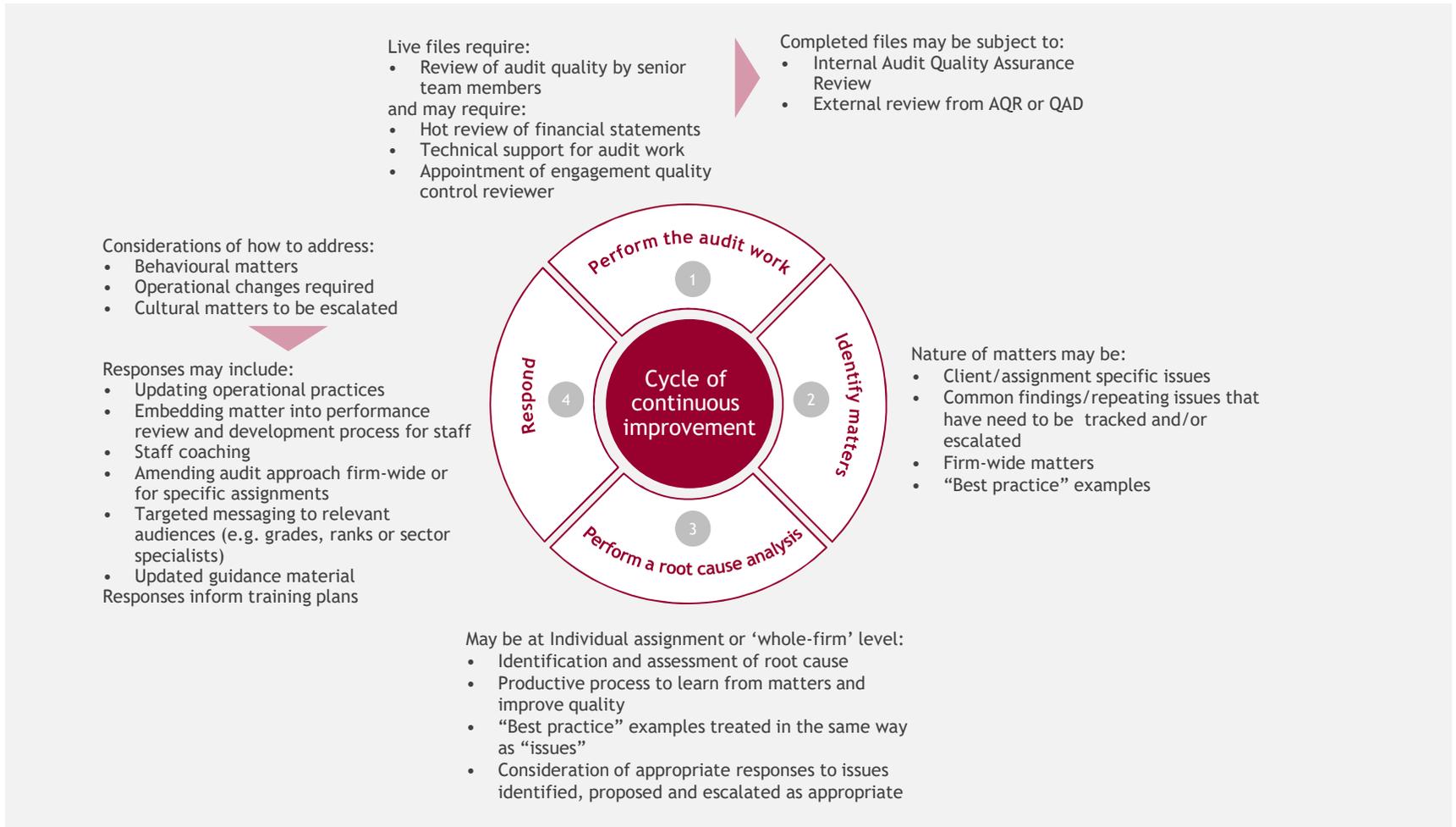
Big 7 Firms - Results 2019



AQR RESULTS 2018/19

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

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