



Report to the Audit Committee

LONDON BOROUGH OF BARNET COUNCIL

Audit Planning Report: year ending 31 March 2021

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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 2021 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, 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.

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

We look forward to discussing this plan with you at the Audit Committee meeting on 28 April 2021 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.

Lisa Clampin

13 April 2021



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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.

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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 the Group for the year ending 31 March 2021.

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

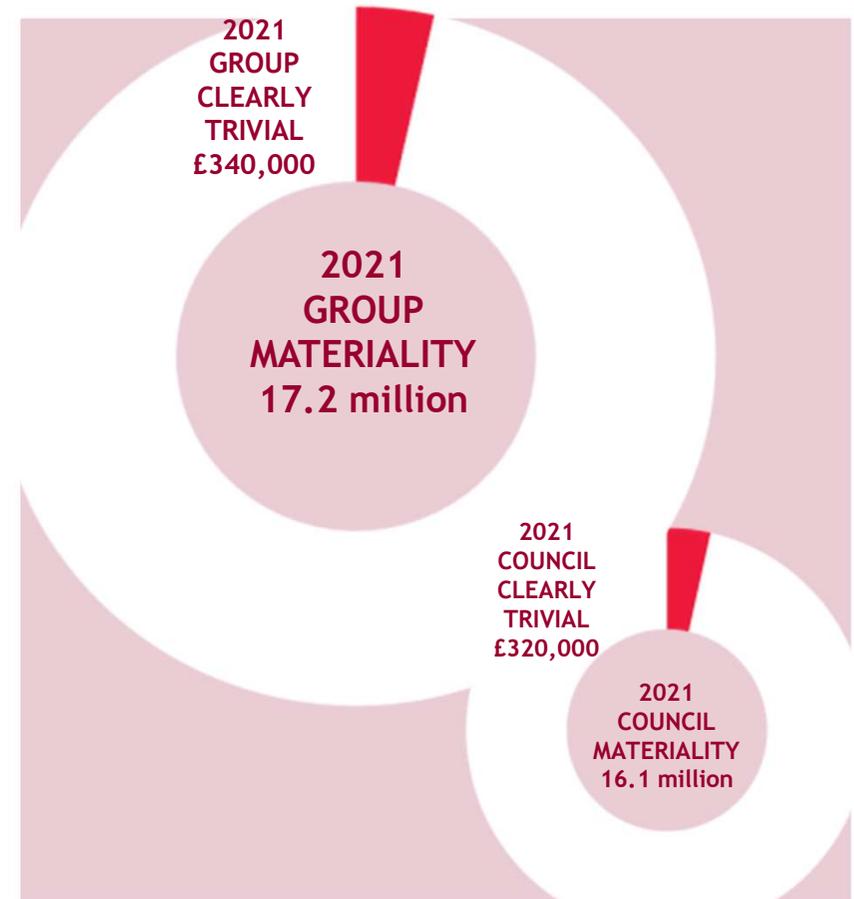
The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements and consolidated entities (together the 'Group'); 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. The Code of Audit Practice was updated with effect from 1 April 2020 and as a consequence the scope of the use of resources work has changed for the year ending 31 March 2021. More information on this change is included on page 23.

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.

We have considered the impact on our audit strategy of the volume and significance of the accounting errors picked up by last year's audit. We have responded to the risks raising the risk profile in certain discrete areas.

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

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Risks identified per our risk assessment - Financial statements	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 before grant conditions are met	Significant	Yes	Substantive	Medium
3. Recognition of expenditure in the incorrect accounting period	Significant	Yes	Substantive	Low
4. Incorrect assumptions and estimates as well as inaccurate/incomplete input data used in the valuation of properties	Significant	No	Substantive	High
5. Inappropriate assumptions and estimates used in pension assets and liabilities valuation	Significant	No	Substantive	High
6. Incomplete asset register and non-existent properties included in the carrying balance at year end.	Significant	No	Substantive	Low
7. Errors in the consolidation of group transactions and balances as well as incorrect presentation of group movement in reserve statement	Significant	No	Substantive	Low
8. Incorrect classification of land acquired for the Brent Cross development	Significant	No	Substantive	High
9. Over estimation of provision for non-collection of intercompany loans	Significant	No	Substantive	High
Risks identified per our risk assessment - Use of resources	Relevant criteria			
10. Inadequate arrangements to monitor progress of the Brent Cross development	Significant	Governance	Detailed assessment of project management plans	Low
11. Inadequate arrangements in place to plan and manage resources to ensure continuous service delivery	Significant	Financial sustainability	Detailed assessment of MTFS and savings plans	Medium

INDEPENDENCE AND FEES

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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	2020/21	2019/20
PSAA scale audit fee	£130,919	£130,919
Additional audit fee	⁽²⁾ £150,000	⁽¹⁾ £120,000
Total audit fees	£280,919	£250,919
Fees for non-audit services - audit related (estimate):		
• Teachers pension fund return certification	£5,000	£5,000
• Capital receipts pooling return certification	£2,750	£2,750
Total non-audit services fees	£7,750	£7,750
Total fees	£288,669	£258,669

- (1) The PSAA initial scale fee for the Council audit in 2019/20 was £130,919 and we increased this by £40,000 to £170,919 and reported this to the Audit Committee on 22 January 2020, to reflect increased risks and audit issues in recent years. Significant further audit costs were incurred due to matters arising on property valuations and the impact of COVID-19. We have agreed further overrun additional fees of £80,000 with management so that total additional fees are £120,000. This fee variation is currently subject to PSAA review and approval.
- (2) We propose a fee variation to the scale fee for 2020/21 to reflect the additional audit work required in response to the high level of audit risk present as a result of the level and complexity of issues encountered in recent years, the increased complexity of the Group structure and component entities controlled by the Council, changes in auditing standards as outlined on page 41 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 expectations of audit regulators. Additional fees for overrun are only an estimate at this stage. We will review the actual cost after completion of the audit.

OVERVIEW

Audit scope and objectives

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

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

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

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 (the “CIPFA Code”) 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.
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 of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Audit Completion 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.
Use of resources and Auditor’s Annual Report	We will provide an annual commentary on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council. The Auditor’s Annual Report is required to be published by the Council. At the time of drafting this Audit Planning Report the timetable for publication is not yet confirmed.

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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 1-11	£16.1m	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 £83 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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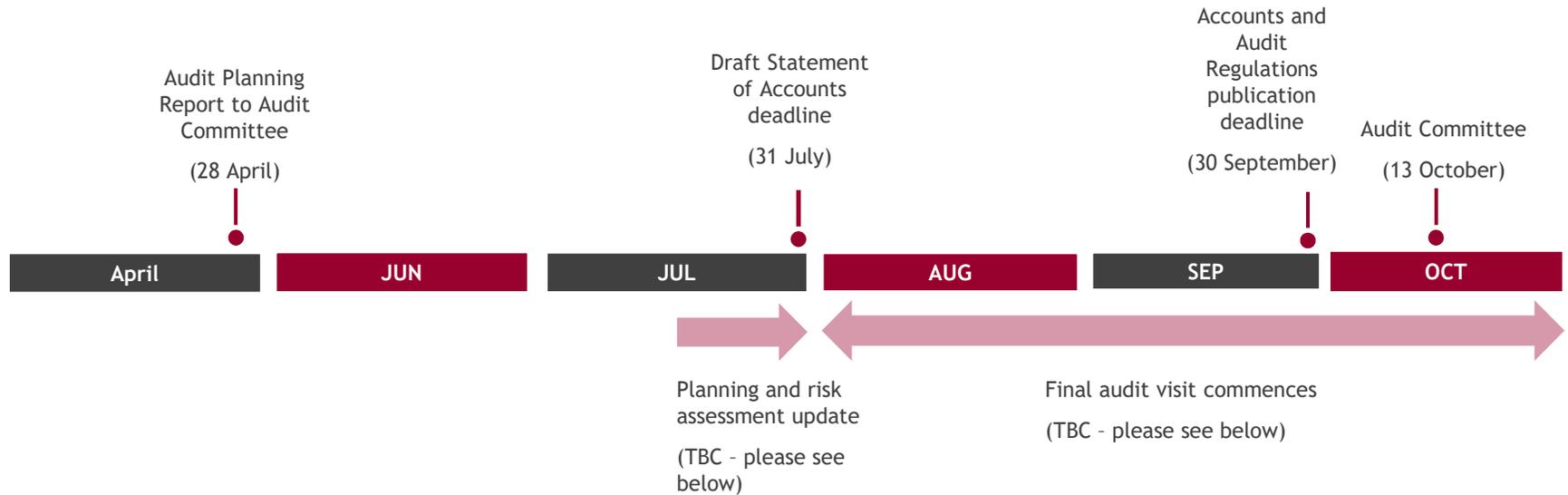
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Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
Inglis Consortium	Land acquisition, development and disposal (Joint venture with 13.9% held by the Council)	Immaterial component	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
Barnet Education & Learning Service (BELS)	Education and skills service (100% owned by the Council)	Immaterial component	Below 15% of group income / assets Total income and expenditure in the entity is approximately £14 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.	N/A	N/A	Desktop review to confirm below materiality levels

AUDIT TIMELINE

An overview of the key dates



In 2019/20 there were a significant number of delayed audit opinions arising from additional audit resources required due to the increasing complexity of local authority financial statements, greater use of complex group structures and activities undertaken through subsidiaries and joint ventures, and pressure on auditors to deliver higher quality audits. These delays have impacted the delivery of grant certification work which, in turn, has significantly disrupted ability to deliver substantial interim audits. As a result of these combined factors, there are insufficient available specialist audit resources in the local public audit sector to deliver all local authority audit opinions ahead of the local authority publication deadline for 2021. We recognise that this is not an ideal situation for the sector but reflects the pressures on audit resources in local public audit.

In BDO, reflecting the above, our resource plans for 2020/21 extend beyond the 30 September local authority publication deadline set. In addition, for London Borough of Barnet Council specifically, we do not consider it feasible to deliver an audit of the scope, complexity and level of audit risk set out in this Audit Plan within a two month period.

We have agreed with management that we will risk assess our ability to deliver your audit opinion by the end of November, setting realistic timelines for the preparation and provision of draft accounts and supporting working papers and evidence as well as for their audit. We will update the Audit Committee on these discussions and the agreed timetable at its July meeting.

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BDO TEAM

Team responsibilities



Lisa Clampin
Engagement Lead

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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.



Michael Asare Bediako
Audit Manager

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I will lead on the audit of the Council. I work closely with Lisa to develop and execute the audit strategy. I 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.



Gerald Chanduru
Assistant Manager

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I will be responsible for the day to day supervision of the audit team and a key point of contact for the finance team during the audit, as well being responsible for operational project management. I will also deliver some of the key audit work in response to significant risks.

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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	Risk rating	Overview of risk
1. Management override of controls	Significant risk	Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.
2. Recognition of grant income before grant conditions are met	Significant risk	Auditing standards presume that income recognition presents a fraud risk.
3. Recognition of expenditure in the incorrect accounting period	Significant risk	For public sector bodies the risk of fraud related to expenditure recognition is also relevant.
4. Incorrect assumptions and estimates as well as inaccurate/incomplete input data used in the valuation of properties	Significant risk	There is a risk over the valuation of 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. There is also a risk of incomplete and inaccurate information used in the valuation.
5. Inappropriate assumptions and estimates used in pension assets and liabilities valuation	Significant risk	The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.
6. Incomplete asset register and non-existent properties included in the carrying balance at year end.	Significant risk	There is a risk that the asset register may not be complete. There is also a risk that properties included in the asset register may not be owned or controlled by the Council.
7. Errors in the consolidation of group transactions and balances as well as incorrect presentation of group movement in reserve statement	Significant risk	There is a risk of errors in the consolidation of group entities due to increase inter-company activities and the different accounting framework applied by group entities. There is also a risk that group movement in reserve statement may not be presented in accordance with the CIPFA Code.
8. Incorrect classification of land acquired for the Brent Cross development	Significant risk	There is a risk that parcels of land acquired for the Brent Cross development in exchange for loan notes in the joint venture may not be classified correctly where the land has been prepared and readied for transfer into the JV.
9. Over estimation of provision for non-collection of intercompany loans	Significant risk	There is a risk over the estimation of the impairment allowance for non-collection of inter company loans if incorrect assumptions or source data are used.
10. Inadequate arrangements to monitor progress of the Brent Cross development(Governance)	Significant risk	Inadequate arrangements to monitor the project and lack of appropriate arrangements or schemes to intervene in the event that project is no longer feasible may result in efficient use of Council's resource.
11. Inadequate arrangements in place to plan and manage resources to ensure continuous service delivery (financial sustainability)	Significant risk	There is a risk that the Council may not have adequate arrangements in place to plan and manage its resources to ensure it can continue to deliver services.

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MANAGEMENT OVERRIDE OF CONTROLS

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Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

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

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Planned audit approach

Our audit procedures will include the following:

- Analyse and verify journal entries made in the year by 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
- Assessment of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Assess unadjusted audit differences for indications of bias or deliberate misstatement.

RECOGNITION OF GRANT 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

We will test an increased sample of grants included in income to documentation from grant paying bodies and check whether any conditions attached to the grants have been met prior to recognition in the comprehensive income and expenditure statement (CIES).

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	

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

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

We will test an increased 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.

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	

VALUATION OF PROPERTY, PLANT AND EQUIPMENT

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There is a risk over the valuation of assets due to the high degree of estimation uncertainty. There is also a risk of incomplete and inaccurate information used in the valuation.

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

In the prior year we identified errors in the data provided to the valuer, such as incorrect build cost for leisure centres, double counting of assets or misclassified assets in the asset register and the transfer of a school to Academy status not being adjusted for in the asset register.

There is therefore a risk of incomplete and inaccurate information being used in the valuation.

Planned audit approach

Our audit procedures will include the following:

- Assessment of 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
- Confirmation that the basis of valuation for assets valued in year is appropriate based on their usage
- Confirmation of the accuracy and completeness of information provided to the valuer by agreeing to source documents
- Assessment of the assumptions used by the valuer and movements against relevant indices for similar classes of assets
- Making inquiries of the valuer for valuation movements that appear unusual or outside of our expectations
- Checking that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

PENSION ASSETS AND LIABILITIES VALUATION

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

Planned audit approach

Our audit procedures will include the following:

- Agreeing the disclosures to the information provided by the pension fund actuary
- Assessing the competence of the management expert (actuary)
- Assessing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Assessing the controls in place for providing accurate membership data to the actuary
- Contacting the pension fund auditor and request confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checking that any significant changes in membership data have been communicated to the actuary
- Contacting the pension fund auditor and requesting confirmation of assurance obtained over the valuation and ownership of the different asset classes of the scheme.

COMPLETENESS AND EXISTENCE OF NON CURRENT ASSETS

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There is a risk that asset register may not be complete. There is also a risk that assets included in the asset register may not be owned or controlled by the Council.

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

In the prior year we identified that the Council had incorrectly treated 213 properties as disposed of in year and recognised a loss of £13.2 million (159 of these properties being HRA council dwellings) although properties were still owned by the Council at year end. This was due to Barnet Homes providing inadequate information to the Council to account for its major works programme, new property purchases and out of borough property acquisitions. We also noted that the Council had not derecognised a school that became an independent academy school during the year. Under the terms of the transfer to academy status, the local education authority transfers ownership of the school to the Department for Education for nil consideration. In addition we also identified that revenue expenditure funded from capital under statue (REFCUS) was incorrectly capitalised.

Based on the errors identified in the prior year, there is a risk that asset register may not be complete. There is also a risk that properties included in the asset register may not be owned or controlled by the Council.

Planned audit approach

Our audit procedures will include the following:

- Assessing the controls in place to ensure that accurate and complete information about major works programmes and property acquisitions are provided by Barnet Homes to the Council
- Testing an increased sample of expenditure capitalised in the year to ensure that they are appropriate to be capitalised
- Testing an increased sample of disposals to confirm properties were actually disposed or transferred in the year
- Obtaining independent assurance reports over the controls operated at Barnet Homes, particularly controls around the recording of capital expenditure and disposal of properties
- Testing an increased sample of properties at year end to confirm that the Council has legal right the properties.

ACCURACY OF GROUP CONSOLIDATION

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Risk of errors in the consolidation of group entities due to increase inter-company activities and the different accounting framework applied by 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

Significant errors were identified in the group financial statements relating to inconsistent accounting policies, elimination of recurring journal adjustments for previous transfer of land at nominal value, reversing the adoption of IFRS 16 accounting for leases in the subsidiary and elimination all of intra-group transactions. Amendments were also required to appropriately allocate reserves and balances of the subsidiary in the group movement in reserves statement and between group usable and unusable reserves in line with CIPFA Code definitions.

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. There is also a risk that the Group Movement In Reserves Statement may not be presented in accordance with the CIPFA Code.

Planned audit approach

Our audit procedures will include the following:

- Checking the consolidation workings to ensure that intercompany transactions and balance have been treated appropriately, with emphasis on checking asset transfers between group entities
- Analysing the principal accounting policies applied by group entities and ensure that they have been consistently applied in the group financial statements
- Checking presentation of the group movement in reserve statement to ensure that it has been presented in accordance with the CIPFA Code.

CLASSIFICATION OF BRENT CROSS NON CURRENT ASSETS

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There is a risk that parcel of lands acquired for the Brent Cross development in exchange for loan notes in the joint venture may not be classified correctly where the land has been prepared and readied for transfer into the JV.

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 has acquired plots of land and buildings at the Brent Cross South site under direct purchase, treaty and compulsory purchase orders. This is part of the land assembly of the regeneration of the area and sits alongside the new Thames railway station. This is a significant project supported by Government, Network Rail and the Council that will create a major new 'village' with flats, retail units and offices next to the new railway station. In the prior year the asset was transferred from investment property to PPE and classified as surplus assets. The reason given by the Council is that it was no longer appropriate to carry the land as investment property as it was no longer held for future capital appreciation or rental income, but was earmarked for transfer into the development joint venture for regeneration of that part of the borough.

With Management's intention to transfer the land into the joint venture and recover the carrying amount through sale, there is a risk that the plots of land acquired for the development may not be classified correctly where the land has been prepared and readied for transfer into the joint venture.

Planned audit approach

Our audit procedures will include the following:

- Make inquiries of management regarding the status of the transfer of the land assets into the joint venture
- Request and review management's technical working paper providing the justification for classification of assets associated with the Brent Cross project and consider whether classification is appropriate.

PROVISION FOR NON-COLLECTION OF INTERCOMPANY LOANS

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There is a risk over the estimation of the impairment allowance for non-collection of inter company loans if incorrect assumptions or source data are used.

Risk detail

In the prior year we identified that the Council has advanced £33.9 million to Open Door Homes Ltd to fund the development of new social housing and included an expected credit loss provision of £7.5 million. We considered that the credit loss allowance of £7.5 million is not required based on the refreshed business plan and security held over the development asset.

There is a risk over the estimation of the impairment allowance for non-collection of inter company loans if incorrect assumptions or source data are used.

Planned audit approach

We will review and assess the provision model for inter company loans to ensure it includes appropriate assumptions for expected credit losses.

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	■

USE OF RESOURCES

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New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

In addition to new assessment criteria and commentary requirements, the scope of the new Code also considerably increases auditors’ requirements for planning documentation and management should expect an increase in requests for discussion and evidence to facilitate this requirement.

Risk of significant weakness

We are required to report the results of our risk assessment to those charged with governance, including additional work planned in respect of any identified risks of significant weakness, and to keep our risk assessment under continual review, with any changes again communicated to those charged with governance.

We are working through the implications of the new Code, including on risk assessment procedures and requirements for a work programme that addresses risks of significant weakness identified. Detailed supplementary guidance for auditors on the application of the new Code has been issued. At the time of drafting this report, the NAO are considering action that might be taken to mitigate against the potential full extent of additional work necessary compared to the 2015 Code in recognition of the Covid-19 pandemic. This includes both the scope of risk assessment and the timing of narrative reporting.

Pertinent matters from early discussions with management include how the Council plans finances to support the sustainable delivery of services in accordance with its strategic and statutory priorities (Financial Sustainability), and how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency (Governance).

The risks identified to date are set out on the following pages.

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There is a risk that there may be inadequate arrangements to monitor the project and lack of appropriate arrangements or schemes to intervene in the event that project is no longer feasible may result in

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 Brent cross redevelopment is set to be one of the biggest regeneration projects in Europe. The scheme will see the comprehensive regeneration of 151 hectares to create a sustainable new town centre for Barnet and North London including substantial residential and commercial uses. The project comprises three primary components:

- Brent Cross London - a modernised and extended shopping centre and improvements to critical road infrastructure as well as cycling and pedestrian access. Delivered by Hammerson and Standard Life Investments.
- Brent Cross South - the creation of a new high street south of the North Circular, including 6,700 new homes, commercial development and new and improved community facilities and public spaces.
- Brent Cross Thameslink - a new, additional Thameslink station and associated infrastructure works to provide pedestrian, cycling and vehicle links across the railway, and replace outdated waste and freight facilities.

The regeneration will be undertaken with a development partner (Argent Related) through a joint venture rather than directly by the Council, through BXS LP.

Due to the scale of the project, inadequate arrangements to monitor the project and lack of appropriate arrangements or schemes to intervene in the event that project is no longer feasible may result in inefficient, ineffective or uneconomic use of Council resources.

Planned audit approach

Our audit procedures will include the following:

- Assessing the project management plans in place including monitoring arrangements to ensure the arrangements are robust
- Making inquires of management regarding schemes or plans in place to intervene including suspending the programme in the event the project is no longer feasible.

FINANCIAL SUSTAINABILITY

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There is a risk that the Council may not have adequate arrangements in place to plan and manage its resources to ensure it can continue to deliver services.

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

Over the MTFs period to 2024/25, there is a savings requirement of £48.910m. Identified savings proposed for approval by the Council amount to £34.802m. This leaves a gap in savings of £14.108m. The current uncertainty on local government funding beyond 2021/22 means that the majority of the gap is estimated to fall within 2022/23. Although the Covid-19 restrictions are being eased due to a slow down in transmission of the virus, the economic impact due to pressure on services arising from the impact of the pandemic will be long-lasting making the savings requirement and savings gap even more challenging. This is exacerbated by plans for the government sales, fees and charges compensation scheme to come to an end after the first quarter of 2021/22.

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 2020/21 and the plans to reduce services costs and increase income from 2020/21
- Assessing the strategies to close the budget gap.

GOING CONCERN

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

Directors' responsibilities

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

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

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

Audit responsibilities

Our responsibilities in respect of going concern are:

- 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
- 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 Council's 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 Council's 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.

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Fraud

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

We have not been made aware of any actual alleged or suspected incidences of fraud. 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.

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 2020/21 under the circumstances.

Significant accounting estimates and judgements

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

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

We will review the reports issued by the Council's internal audit function. Although we do not plan to place reliance on their work in respect of their assessment of control processes, we expect to place reliance on their work to support our use of resources assessment.

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.

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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 of fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management.

Financial statement disclosures

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

Contingencies

We request input from the Audit Committee on recent claims.

Any other matters

We will report to you on any other matters relevant to overseeing 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.



IRREGULARITIES (INCLUDING FRAUD)

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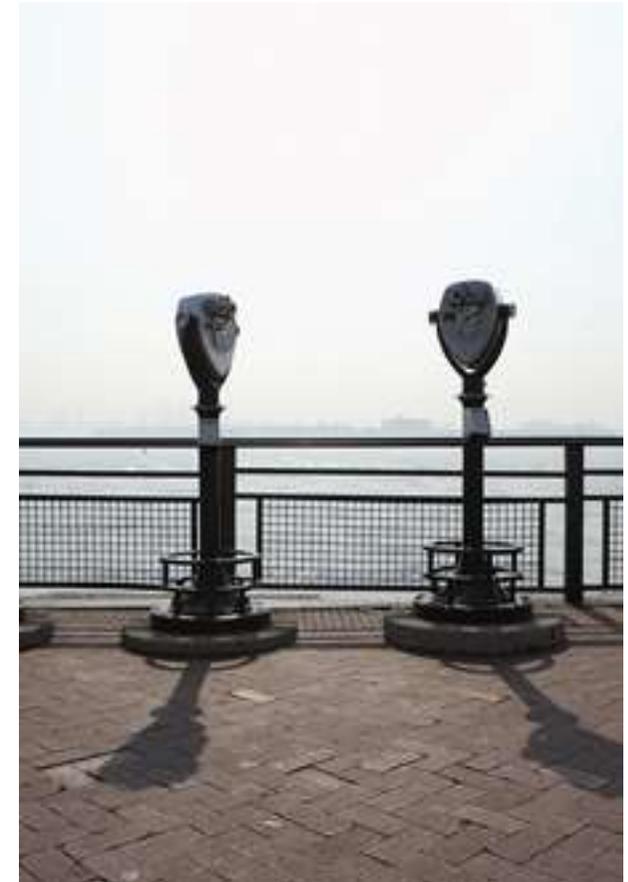
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as whole a free from material misstatement whether due to fraud or error. We design audit procedures to respond to the risk of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and that irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the Council's financial statements and may include, where appropriate:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations
- Enquiries of management, those charged with governance and the Council's legal advisers
- Agreement of the financial statement disclosures to underlying supporting documentation
- Review of minutes of Council and Cabinet meetings throughout the year and of correspondence with regulatory authorities
- Written representations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.



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Revision to ISA (UK) 540 means that we may need to update our approach the audit of accounting estimates - including confirmation and documentation of our understanding of the Council's estimation process.

We will need to obtain an understanding of how you control your estimation process including not only the design and implementation of the process, but also the policies and procedures you put in place to satisfy yourself that each step in the process is properly applied, and that the resulting accounting estimates are reasonable.

For significant accounting estimates, particularly those that are complex or where there is a high degree of estimation uncertainty we will also make enquiries about how you:

- Make those responsible for deriving or changing your accounting estimates aware of relevant significant transactions, conditions or events
- Review the outcome(s) of previous accounting estimates and respond to the results of that review
- Identify and comply with the relevant requirements in the applicable financial reporting framework regarding your accounting estimates and related disclosures including how they are affected by complexity and your judgment
- Account for regulatory factors relevant to the Council's accounting estimates;, including, when applicable, regulatory frameworks related to prudential supervision
- Identify the need for, and apply, specialised skills or knowledge related to accounting estimates, including with respect to the use of a management's expert
- Identify and address risks related to accounting estimates through your risk assessment process

- Identify relevant methods (including models), assumptions and data and the need for changes in them and from those identified, and select those to apply
- Address the degree of estimation uncertainty in selecting your final point estimates
- Describe in your financial statements matters related to your process for deriving your accounting estimates, and matters related to the degrees of estimation uncertainty underlying your accounting estimates
- Ensure there is oversight and governance in place over management's financial reporting process relevant to accounting estimates.

Under ISA (UK) 540 (revised) our audit approach will involve a more granular risk assessment relating to each significant estimate and separate consideration of the methods (or models) applied in calculating the estimate, the nature, source and reliability of data used and the significance, consistency and appropriateness of assumptions made.

We will also request written representations from you regarding the reasonableness of the methods, significant assumptions and the data used in determining the monetary amounts of accounting estimates, including the related disclosures, in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21.

IT GENERAL CONTROLS

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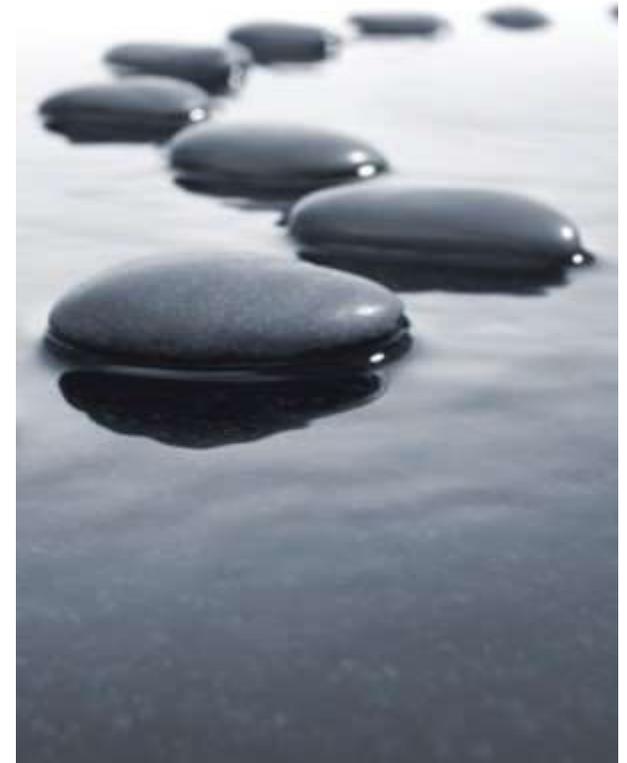
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IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly 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.



FRC ETHICAL STANDARD (DECEMBER 2019)

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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 as applicable to our audit of the Council.

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.
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.

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 2021.

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 Council and 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 Council during the period and up to the date of this report are set out in the fees table on page 7.

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

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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 2020/21, 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 Annual Report 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 and to provide an annual commentary on arrangements in the Auditor’s Annual Report.

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’ 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.

Auditor’s Annual Report

We will provide an annual commentary on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council. The Auditor’s Annual Report is required to be published by the Council. At the time of drafting this Audit Planning Report the timetable for publication is not yet confirmed.

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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
Lisa Clampin	1	10 years
Michael Asare Bediako	3	10 years

Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	2	10 years

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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
- Instances when greater precision is required (e.g. disclosure of senior officers’ 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
- 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.

Definition of materiality under IFRS

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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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.

NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

We would like to draw to your attention the following summary of key changes to standards, regulations and other financing reporting developments, their effective dates and an indication, based on preliminary discussions with management and our sector understanding, of their possible effect on the annual report.

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments	Expected effect				Effective for periods beginning on or after 1 January	
	None	Low	Medium	High	2020	2021
Amendments to IFRS 3 <i>Definition of a business</i>		●				●
Auditing standard - audit of accounting estimates						
Increased emphasis on understanding management’s processes, systems and controls estimation uncertainty and financial statement disclosures			●		●	
Auditing standard - going concern						
Increased emphasis on evaluation of management’s assessment of the entity’s ability to continue as a going concern			●		●	
Auditing standard - audit reports						
New audit report format with updated conclusion on going concern and reference to irregularities, including fraud			●		●	

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AQR RESULTS 2019/20

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Overview

The FRC released their Audit Quality Review results for the 7 largest accountancy firms in July 2020 for the review period 2019/20. A copy of all of the reports can be found on the [FRC Website](#).

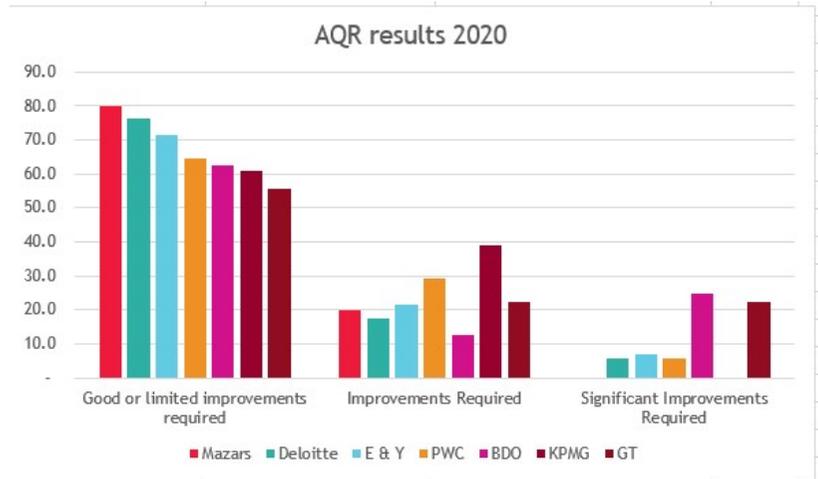
Firm's Results

The graphs demonstrates our performance in relation to the other 6 largest firms. Having topped the table for audit quality for the last two consecutive years, we are disappointed to see a decline in our results. These scores remind us we must remain committed to continuous improvements and, having carefully considered the root causes of the AQR findings, we are in the process of implementing detailed action plans where required. We have made a number of enhancements to our Audit Quality Plan to address these issues to drive our key focus of a continuous improvement in audit quality including highlighting how we will make changes to our root cause analysis process which plays a key role.

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
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

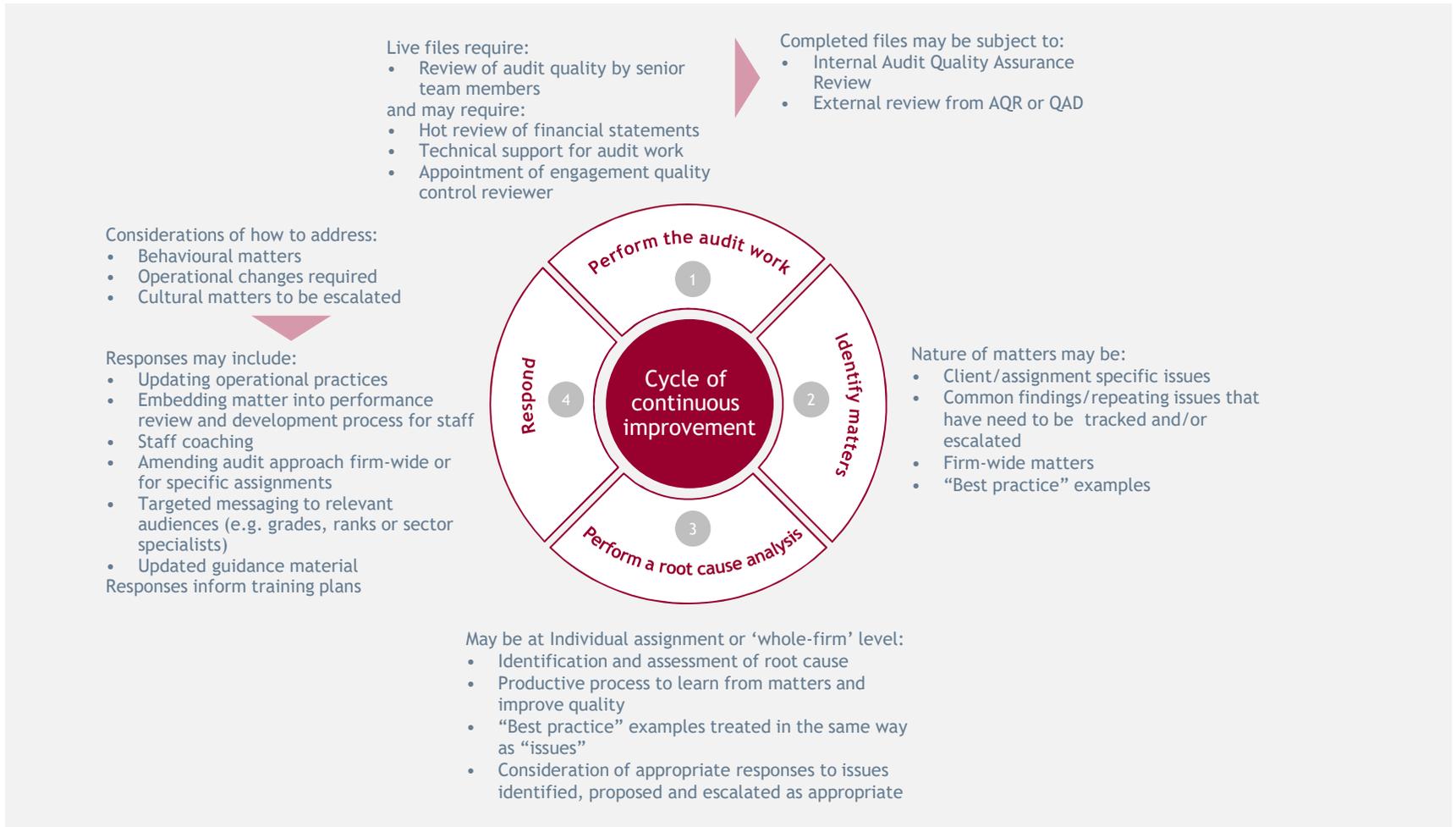
More details will be included in our Transparency Report which will be available on our www.bdo.co.uk



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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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