



# LONDON BOROUGH OF HARINGEY

AUDIT PLAN TO THE CORPORATE COMMITTEE

Audit for the year ending 31 March 2018

8 March 2018

# CONTENTS

INTRODUCTION ..... 1

YOUR BDO TEAM ..... 2

ENGAGEMENT TIMETABLE ..... 3

AUDIT SCOPE AND OBJECTIVES..... 4

MATERIALITY ..... 5

OVERALL AUDIT STRATEGY ..... 6

KEY AUDIT RISKS AND OTHER MATTERS ..... 9

INDEPENDENCE ..... 15

FEEES ..... 16

APPENDIX I: MATERIALITY ..... 17

# INTRODUCTION

## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the authority and consolidated entities (together the 'Group') and use of resources of the authority for the year ending 31 March 2018. It 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. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. As the purpose of the audit is for us to express an opinion on the Council's financial statements for the year ending 31 March 2018, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we consider internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work is not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Corporate Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

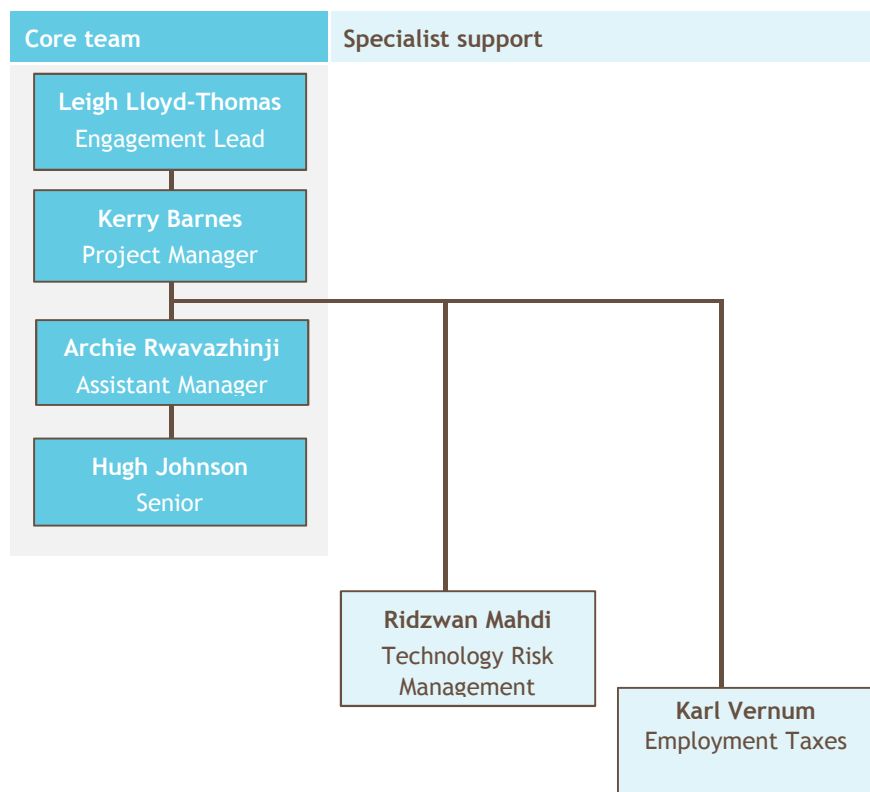
## AUDIT QUALITY

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

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department), the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US public companies) and CPAB (Canadian Public Accountability Board), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for audits of listed companies and public interest entities.

More details can be found in our latest Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk).

# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Leigh Lloyd-Thomas</b> Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
<b>Kerry Barnes</b> Project Manager	Tel: 020 7893 3837 kerry.l.barnes@bdo.co.uk	Management of the audit
<b>Archie Rwavazhinji</b> Assistant Manager	Tel: 014 7332 0700 archford.rwavazhinji@bdo.co.uk	Day to day management and supervision of the audit
<b>Hugh Johnson</b> Senior	Tel: 020 7893 2551 hugh.johnson@bdo.co.uk	Day to day supervision of the on-site audit
<b>Ridzwan Mahdi</b> Technology Risk Assistant Manager	Tel: 020 7893 3126 ridzwan.x.mahdi@bdo.co.uk	Manage IT review for audit purposes
<b>Karl Venum</b> Employment Tax Manager	Tel: 020 7893 3549 karl.venum@bdo.co.uk	Manage employment tax review for audit purposes

Leigh is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

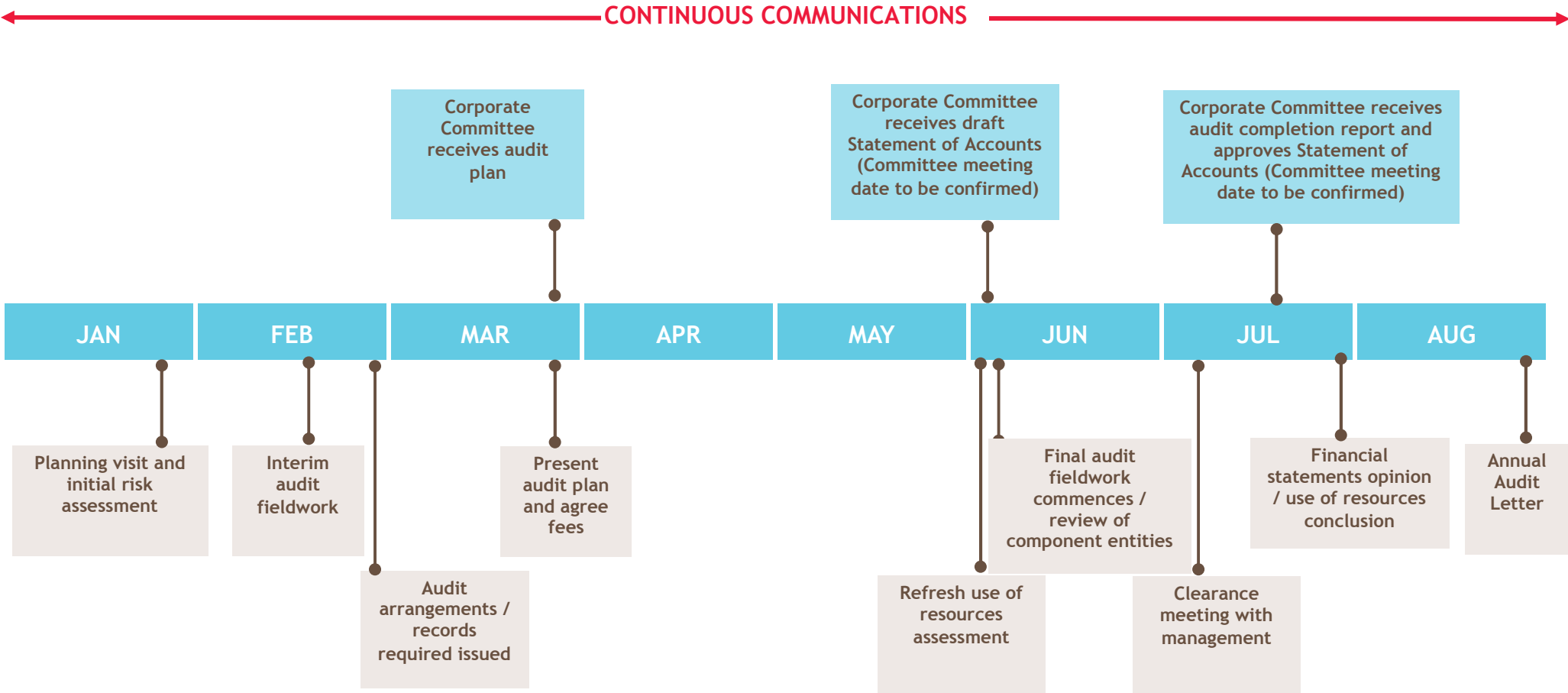
- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

He is responsible for the overall quality of the engagement.

# ENGAGEMENT TIMETABLE

## TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
1	The financial statements give a true and fair view of the financial position of the group and authority and its expenditure and income for the period in question.	3	4	5
2	The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).	The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.	The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## ADDITIONAL POWERS AND DUTIES

<b>6</b>	Where appropriate: To consider the issue of a report in the public interest.  To make a written recommendation to the authority.	<b>7</b>	To allow electors to raise questions about the accounts and consider objections.  Where appropriate, to apply to the court for a declaration that an item of account is contrary to law.  Where appropriate, to consider whether to issue an advisory notice or to make an application for judicial review.
----------	---	----------	---

# MATERIALITY

## GROUP AND COMPONENT MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£16,400,000	£500,000
Significant components:		
• Council	£16,100,000	£500,000
Non-significant components:		
• Homes for Haringey Ltd	n/a	n/a
• Alexandra Park and Place Charitable Trust	n/a	n/a

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the group and the Council has been based on 1.5% of the budgeted gross expenditure. At this stage, the figure is based on the average gross expenditure over the past two years. This will be revisited when the draft financial statements are received for audit.

Component materiality is set for those entities where component auditors perform an audit or a review for purposes of the group audit. The local materiality applied for the statutory audit of the component financial statements, where required, cannot exceed the component materiality and is likely to be lower than the component materiality set as part of the group audit. We understand that the component auditor has agreed materiality at levels significantly below our Group materiality level.

The clearly trivial amount is based on 3% of the materiality level of both the Council and the group.

Our usual benchmark for clearly trivial misstatements is 2% of materiality (£328,000). Management has stated that, in its view, misstatements (other than fraud) below £500,000 would be considered as trivial in terms of the Group and Council's gross expenditure. Members of the Corporate Committee should draw to our attention any concerns in this matter.

# OVERALL AUDIT STRATEGY

## **We will perform a risk based audit on the group and authority's financial statements and the authority's use of resources**

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the group, authority and other component entities' businesses and the specific risks it faces. We discussed the changes to the businesses and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements, group-wide controls and the consolidation process, and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to audit risks.

### **Approach to components of the group financial statements**

Our approach is designed to ensure we obtain the requisite level of assurance across the whole group.

We are aware that there is some uncertainty whether local authority controlled companies are able to take advantage of the size and threshold exemptions for audit or whether the requirement for audit remains in place where the authority itself is preparing consolidated accounts. It is our understanding that local authority controlled companies are not able to take advantage of the audit exemption.

Total coverage is expected to be as shown opposite.

SCOPE	EXPENDITURE COVERAGE 2017/18	NET ASSETS 31/3/17	EXPENDITURE COVERAGE 2016/17	NET ASSETS 31/3/17
Full scope procedures	£TBC	£TBC	£1,059m	£1,282m
Desktop review	£TBC	£TBC	£7m	£24m
<b>Total</b>	<b>£TBC</b>	<b>£TBC</b>	<b>£1,066m</b>	<b>£1,306m</b>

Coverage for 2017/18 will be updated once draft financial statements have been provided.

### **New Auditing Standards from 2017/18**

This is the first year of application of a revised set of International Standards on Auditing (ISAs) applicable to the UK. These include enhanced requirements in respect of the audit of disclosures, other information published with the accounts and of going concern, as well as changes to the structure and content of the audit opinion.



# OVERALL AUDIT STRATEGY

## Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED	OVERVIEW OF THE NATURE OF OUR PLANNED INVOLVEMENT IN THE WORK PERFORMED BY THE COMPONENT AUDITOR
Full scope procedures:					
Council	>99%	>98%	BDO UK	Code audit of the financial statement prepared under CIPFA Code of Practice on Local Authority Accounting.  Including a review of the valuation of Alexandra Palace required for the inclusion in the group financial statements, not included at valuation in the Charity's financial statements.	Undertaken by the group audit team
Desktop review:					
Homes for Haringey Ltd	<1%	<(1%)	PwC LLP	Analytical review of consolidation pack / financial statements prepared by the component entity assessed against expectations and prior year amounts.  Specific review of the calculation of the pension fund liability prepared by the actuary and agreement of management fee income against the Council's expenditure.	N/A
Alexandra Park and Palace Charitable Trust	<1%	<3%	haysmacintyre	Analytical review of consolidation pack / financial statements prepared by the component entity assessed against expectations and prior year amounts.	N/A

# OVERALL AUDIT STRATEGY

## Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 “Identifying and assessing the risks of material misstatement through understanding the entity and its environment”, we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the authority in forming our risk assessment and audit strategy.

## 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 understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit and whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

## Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the financial statements is low. Frauds identified in recent years include:

- Ineligible applications for right to buy discounts on Council properties
- Housing benefit and local council tax support claimants
- Misuse of public assets but without financial impact, such as tenancy sub-letting and blue badges.

Management consider that controls in operation would prevent or detect material fraud and the amounts lost due to fraud and misrepresentation in recent years has not been significant. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

The Corporate Committee has oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through the reviews undertaken by internal audit and the Counter Fraud team.

To corroborate the responses to our inquiries of management, please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</li> <li>• Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	Not applicable.
Revenue recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital of grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the existence of fees and charges recorded in the CIES.</p>	<p>We will test a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p>	Government grant funding will be agreed to information published by the sponsoring Department.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Land, buildings, dwellings and investment property valuations	<p>Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties are not materially different to existing use value for operational assets, or fair value for surplus assets and investment properties at the balance sheet date.</p> <p>The Council engage with Wilks Head and Eve (WHE) to carry out an annual valuation. In 2017/18, the valuation will be performed at 31 January 2018 and will be updated at the end of the year for any significant movements.</p> <p>There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not been provided for a class of assets at year-end.</p>	<p>We will review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	We will review independent data that shows indices and price movements for classes of assets against the valuation movements applied by the Council.
Completeness and accuracy of the fixed assets register	During the 2016/17 audit we identified a number of errors in relation to the completeness and accuracy of the fixed assets register. The errors included duplications, omissions and incorrect treatment of some transactions.	<p>We will review the instructions and the detailed information provided by the Council to the valuer and perform procedures to confirm the accuracy and completeness of the information.</p> <p>We will compare the fixed assets register to the valuers' report and obtain reasons for discrepancies.</p> <p>We will test an increased sample of additions, disposals and revaluations to ensure that they have been accounted for correctly in accordance with the CIPFA code.</p>	Valuations reports provided by Wilks Head and Eve (WHE)

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the Council's and Homes for Haringey Limited's share of the market value of assets held in the London Borough of Haringey Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>As the auditors of the pension fund, we will review the controls for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	We will use the PwC consulting actuary report provided to auditors for the review of the methodology of the actuary and reasonableness of the assumptions.
Transfer of assets from HRA to General Fund	<p>The Commercial Properties no longer required for housing purpose, were appropriated to the General Fund with effect from 1 July 2017, as per the Cabinet resolution of that date. The assets transferred consist largely of retail outlets on council owned housing developments with an approximate value of £26m.</p> <p>The historic classification as HRA was appropriate as the housing developments used to be occupied 100% by council tenants and the assets were purely for services provided to tenants. However, with the increased rates of private ownership of former council dwellings the assets are no longer required for housing purposes.</p>	<p>We shall assess the use of the assets to be transferred using both direct methods and through consultation with the valuer.</p> <p>We shall verify that the transfer is in accordance with the Code.</p>	Valuations reports provided by Wilks Head and Eve (WHE)

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.	<p>We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	Companies House searches for undisclosed interests.
Allowance for non-collection of receivables	<p>The Council's bad and doubtful debt impairment provision on aged debt is determined for each income stream using available collection rate data. The significant provisions include council tax arrears, non-domestic rates arrears, housing benefit overpayments, housing rent arrears and parking PCNs.</p> <p>There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates for that income stream.</p>	We will review the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	Not applicable.
The remapping of the prior year CIES	<p>The Code requires the CIES is consistent with the internal reporting within the Council. During the year the main headings used for reporting expenditure internally have changed. The headings used on the CIES will therefore need to change and the 2016/17 figures will need to be restated.</p> <p>There is a risk that these presentational changes in 2016/17 may not be correctly applied in the financial statements.</p>	<p>We will confirm that the analysis by service line in the CIES is consistent with the internal reporting within the Council.</p> <p>We will review the restatement of the comparative 2016/17 information to ensure that this is presented consistently with the current year basis.</p>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - USE OF RESOURCES			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances	<p>At month 9, the Council projected a full-year revenue deficit of £3.7 million for 2017/18. The General Fund is projecting an overspend of £5.4 million and there is a projected underspend in HRA of £1.7 million. Overspend exists in demand-led areas including: Adults (£2.9 million), Children's (£3.8 million) and Temporary Accommodation (£0.8 million).</p>	<p>We will review 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.</p>	Not applicable.
	<p>A number of mechanisms have been put in place to manage cost/demand-led pressures that focus on the acceleration of transformation activities and in-year cost reductions.</p>	<p>We will monitor the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2018/19.</p>	
	<p>The refreshed Medium Term Financial Strategy (MTFS) covers a five-year period from 2018/19 to 2022/23. The refreshed MTFS shows the need for additional yet unidentified savings of £7m in 2019/20, over and above those planned, and this rises by a further £0.9m by 2021/22. This is due to improved baseline funding announced in the provisional finance settlement, the full impact of the MRP savings and a reduction in the estimated cost of levies.</p>	<p>We will also review the strategies to close the budget gap in the coming years.</p>	
	<p>The MTFS has taken into account a council tax freeze from 2018/19 plus a 3% increase in the council tax precept to contribute to adult social care funding. The increase in the precept is expected to raise £2.7 million. The MTFS also incorporates increased revenue as a result of the London Business Rate Pilot (likely to benefit by £3 million annually by 2020/21), as well as a 2% increase in pay inflation and 1% rent reduction for General Needs Homes for council tenants.</p>		
	(continued)		

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances (continued)	<p>Currently, the Council has balanced the 2018/19 budget by identifying £16 million of savings in six priority areas (Childrens, Adults, Safe &amp; Sustainable Places, Growth &amp; Employment, Home &amp; Communities and Enabling). Funding gaps have been identified from 2019/20 to 2022/23 (£6.9 million, £ 7.3 million, £7.8 million and £7.8million respectively). These gaps will increase if required savings in 2018/19 are not met.</p> <p>Management are proposing establishing a Budget Resilience Reserve which can be used as a one-off measure to offset non-delivery /delay in planned savings. The reserve will mainly be funded from unutilised use of general fund reserves built into the budgets (whilst maintaining a General Fund Reserve balance of £15 million throughout the period of the MFTS).</p> <p>Identifying the required level of savings in the coming years will be a significant challenge and is likely to require difficult decisions around service provision and alternative delivery models.</p>	As above.	As above.



# INDEPENDENCE

## INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Corporate Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2018.

We have not identified any potential threats to our independence as auditors. We have not provided any non-audit services.

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table below sets out the length of involvement of key members of the audit team.

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

ENGAGEMENT TEAM ROTATION	
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Leigh Lloyd-Thomas - Engagement lead	3
Kerry Barnes - Project manager	2

ENGAGEMENT QUALITY CONTROL REVIEWER
NUMBER OF YEARS INVOLVED
1

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18 £	2016/17 £
Code audit fee	206,475	206,475
Certification fee (Housing benefits subsidy)	38,223*	38,223
<b>Total audit and certification fees</b>	<b>244,698</b>	<b>244,698</b>
Fees for audit related services (see below)	7,000	7,000
Fees for non-audit services	0	0
<b>TOTAL FEES</b>	<b>251,698</b>	<b>251,698</b>

AUDIT RELATED SERVICES FEES ANALYSIS	£
Teachers' Pensions Return (local education authority)	3,500
Pooling of Housing Capital Receipts Return	3,500
<b>Total</b>	<b>7,000</b>

\* Currently the PSAA published fee is £33,190 however we propose a fee the same as the prior year.

Fee invoices are raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1 £103,237.50 in July 2017
- Instalment 2 £103,237.50 in January 2018
- Certification of the housing benefits subsidy claim and other grants/returns will be billed on completion of the work.

### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## 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. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, 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 authority, including consideration of factors such as sector 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 financial statements.
-

# APPENDIX I: MATERIALITY


## Continued

### 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. 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

- In accordance with auditing standards, we will communicate to the Corporate Committee 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 Corporate 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.
  - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
    - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
    - Other misstatements that we believe are material or clearly wrong.
-



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 organisation. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2018 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

