



Report to the Corporate Committee

# LONDON BOROUGH OF HARINGEY COUNCIL

Audit Planning Report: year ended 31 March 2021

IDEAS | PEOPLE | TRUST



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# WELCOME

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We have pleasure in presenting our Audit Planning Report to the Corporate Committee of London Borough of Haringey 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 ended 31 March 2021 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these; together with timetable and the BDO team.

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

This report contains matters which should properly be considered by the Council as a whole. We expect that the Corporate 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 Corporate Committee meeting on 16 November 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.

**David Eagles, Partner**  
For and on behalf of **BDO LLP**

8 November 2021



**David Eagles, Engagement Lead**

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

# SCOPE AND MATERIALITY

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This summary provides an overview of the key audit matters that we believe are important to the Corporate Committee in reviewing the planned audit strategy for the Council and the Group for the year ended 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

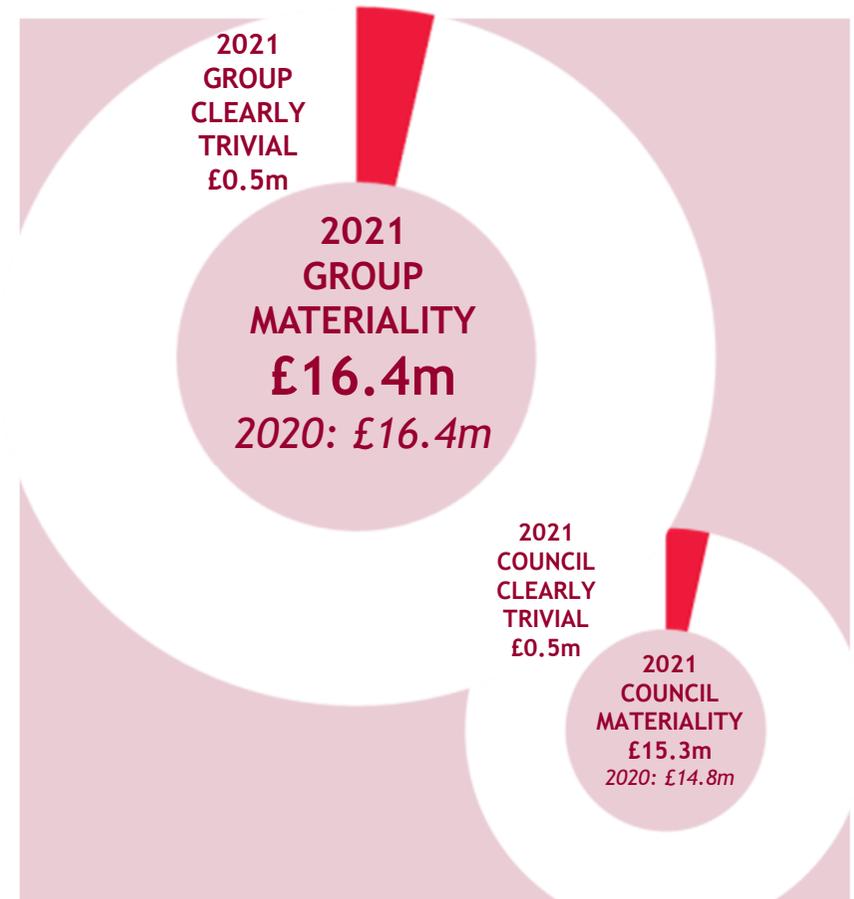
The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements and consolidated 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 ended 31 March 2021. More information on this change is included on page 22.

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 the Group will be set at 1.5% of gross expenditure for the year (prior year 1.5%). This is based on the published draft financial statements for 2020/21.

Although materiality is the judgement of the Engagement Lead, the Corporate Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



# AUDIT STRATEGY

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

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

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

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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
(1) Management override of controls	Significant	Yes	Substantive	Medium
(2) Revenue recognition	Significant	Yes	Substantive	Medium
(3) Expenditure cut-off	Significant	Yes	Substantive	Low
(4) Valuation of non-current assets	Significant	Yes	Substantive	High
(5) Valuation of pension liability	Significant	No	Substantive	High
(6) Reconciliation of bank accounts	Significant	Yes	Substantive	Low
(7) Allowance for non-collection of receivables	Significant	No	Substantive	Medium
(8) Related party transactions	Normal	Yes	Substantive	Low
(9) Sustainable finances (use of resources)	Significant	N/A	N/A	N/A



# INDEPENDENCE AND FEES

## Executive summary

### Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent

### Proposed Fees

	2020/21	2019/20
Code audit Scale fee	£158,986	£158,986
Additional audit fee	<sup>1,6</sup> £TBC	<sup>2</sup> £141,014
Covid related cost	<sup>3</sup> TBC	-
New use of resources approach	<sup>4,6</sup> TBC	-
<b>Total audit fees</b>	<b>£202,469</b>	<b>£300,000</b>
<b>Fees for non-audit services - audit related:</b>		
• Certification of housing benefits subsidy claim	<sup>5</sup> £46,223	<sup>5</sup> £46,223
• Certification of pooled housing capital receipts return	£3,500	£3,500
• Certification of teachers' pensions return	£3,500	£3,500
<b>Total non-audit services fees</b>	<b>£53,223</b>	<b>£53,223</b>
<b>Total fees</b>	<b>£255,602</b>	<b>£353,223</b>

### Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Council. Where this requires a variation to the scale fee set by PSAA we will seek approval from Public Sector Audit Appointments Limited (PSAA). If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Corporate Committee.

### Fee variances

- (1) We will propose a fee variation to the PSAA scale fee for 2020/21 to be discussed with the Council's Finance staff and the Corporate Committee. This reflects the additional audit work required in response to issues encountered in recent years 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.
- (2) The additional audit fee for 2019/20 has been agreed with Council's Finance staff, and is currently awaiting approval by PSAA.
- (3) This represents an estimate of the additional resource time and costs necessary when audits are undertaken remotely. The 15-20% range experienced by BDO and the other audit firms. If we are able to undertake some key work on site, the time reflected here should reduce and the fee level decrease accordingly.
- (4) The audit fee is based on audit scope under the Code of Audit Practice. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. We will propose a fee variation in respect of this once additional procedures have been fully scoped.
- (5) Work in respect of the 2019/20 audit is now complete, and we are still in the process of calculating any additional fees to be discussed with the Council staff and Corporate Committee.
- (6) PSAA have published guidance on additional fees for 2020-21 audit fees which includes new VFM arrangements and accounting estimates <https://www.psaa.co.uk/wp-content/uploads/2021/09/Additional-information-for-2020-21-audit-fees-FINAL-FOR-ISSUE-200921.pdf>.

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# OVERVIEW

## Audit scope and objectives

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

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

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

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 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 Corporate Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Corporate 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.

# AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

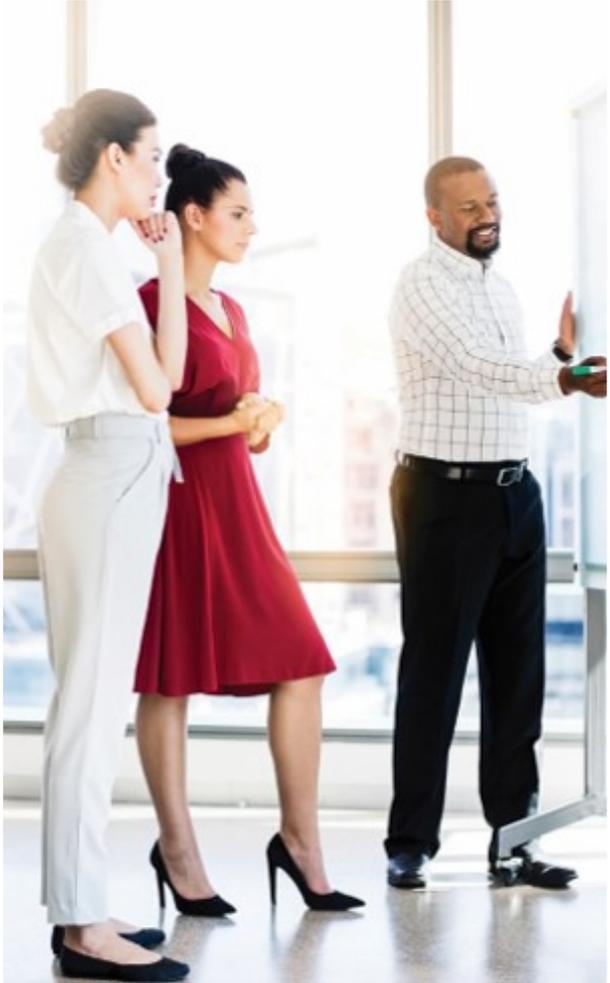
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As Group auditor we are required to design an audit strategy to ensure we have obtained the required audit assurance for each component for the purposes of our Group audit opinion ISA (UK) 600

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

Audit Risks, covered later in this report, are cross referenced to each entity to provide clarity over how these arise within your business and where the focus of the audit work will be.

The clearly trivial threshold for all components has been set at the Group level, being £500,000.



# AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS 2

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Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality and basis of assessment	Audit strategy
London Borough of Haringey	Provides full range of local authority services	Significant	Size and risk	Risks 1 - 8	£15.3m, gross expenditure	Statutory audit performed by BDO LLP
Homes for Haringey Limited	Manages Haringey council housing	Non significant component	Size	Risk 5	£4.65m, gross expenditure	BDO Group Engagement Team analytical procedures and testing of pension liability assumptions  Statutory audit performed by PricewaterhouseCoopers LLP
Alexandra Park and Palace Charitable Trust Limited	Manages the Park and Palace	Non significant component	Size	Risk 4	£4.65m, gross expenditure	BDO Group Engagement Team analytical procedures and testing the valuation of Alexandra Palace  Statutory audit performed by Haysmacintyre
Alexandra House Wood Green Limited	Manages the Alexandra House	Non significant component	Size	Risk 4	£0	BDO Group Engagement Team analytical procedures and testing the valuation of Alexandra House.

# AUDIT TIMELINE

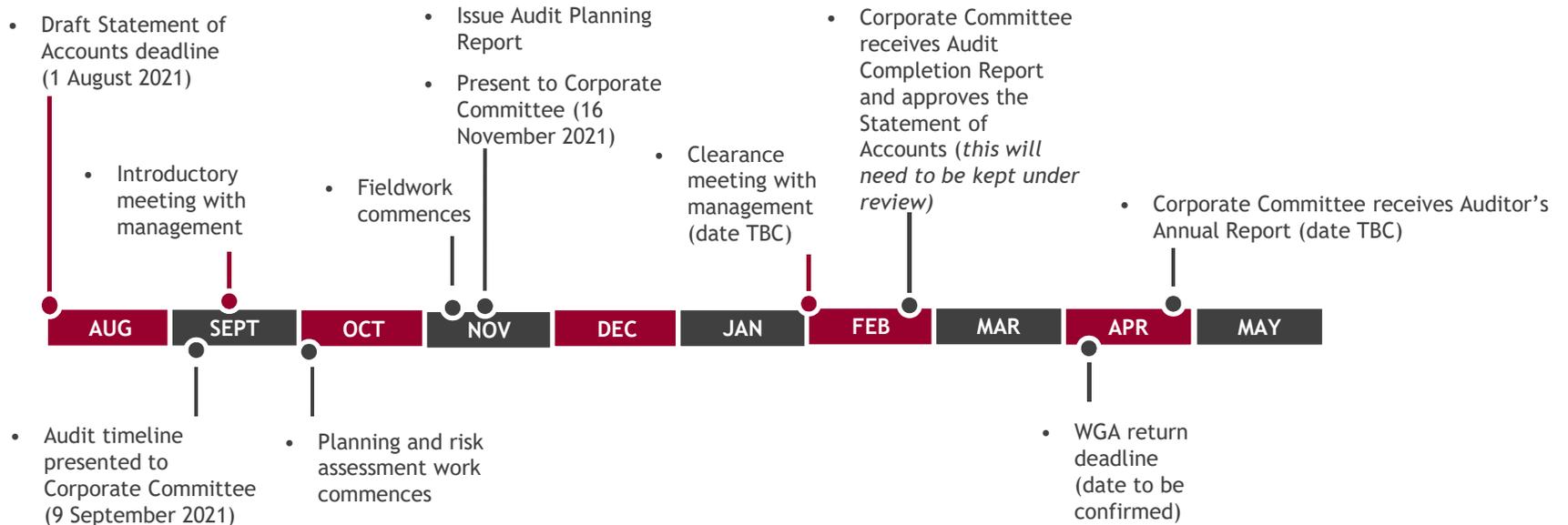
## An overview of the key dates

In 2019/20, across the local authority sector, 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 matters, against the backdrop of delivering audits remotely as a result of the pandemic, 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 Haringey 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, particularly when it has not been possible to conduct an interim audit.

We have agreed with management that we will risk assess our ability to deliver the audit timetable, setting realistic timelines for the preparation and provision of draft accounts and supporting working papers and evidence as well as for their audit.

The timeline below also allows for the completion of the new Code Use of resources work and reporting, the deadline for which is 3 months after issuing the audit opinion.



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# BDO TEAM

## Team responsibilities

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**David Eagles**  
**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 and am supported by the rest of the team as set out here.



**Lucy Trevett**  
**Senior Manager**

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



**Kerry Lin,**  
**Assistant Manager**

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I will be responsible for the day to day supervision of the audit team, and will be responsible for the delivery of the key audit work.

# OVERVIEW

## Audit risks

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

Key: **Significant** / **Normal**

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.
2. Revenue recognition			Auditing standards presume that income recognition presents a fraud risk.
3. Expenditure cut-off			For public sector bodies the risk of fraud related to expenditure is also relevant.
4. Valuation of non-current assets			The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.
5. Valuation of pension liability			The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.
6. Reconciliation of bank accounts			There is a risk that the cash balance could be materially misstated if reconciling items are not cleared on a timely basis or misappropriations could remain undetected.
7. Allowance for non-collection of receivables			There is a risk over the valuation of the impairment allowance for non-collection of receivables if incorrect assumptions or source data are used.
8. Related party transactions			There is a risk that related party disclosures are not complete or accurate.
9. Sustainable finances (use of resources)			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.

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

**Significant risk**

**Normal risk**

**Fraud risk**

**Assess design & implementation of controls to mitigate**

**Significant Management estimates & judgements**

**Controls testing approach**

**Substantive testing approach**

**Risk highlighted by Council**

## Risk detail

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

## Planned audit approach

Our audit procedures will include the following:

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

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**Auditing standards presume that income recognition presents a fraud risk.**

### Risk detail

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

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

### Planned audit approach

Our audit procedures will include testing a sample of grants included as income in the CIES to ensure that recognition criteria, as set out in supporting evidence from the grant paying bodies, has been met.

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

# EXPENDITURE CUT-OFF

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

## Risk detail

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure around the year-end within the correct accounting period (cut-off).

## Planned audit approach

Our audit procedures will include the following:

- Checking that expenditure is recognised in the correct accounting period by substantively selecting items of expenditure based on a lower threshold, for both invoices received and bank payments made:
  - pre year end to reflect the increased risk that expenditure relating to future years is incorrectly recognised in the current year
  - post year end to reflect the increased risk that expenditure relating to inappropriately posted into 2021/22.

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

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

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

## Risk detail

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. 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.

Additionally, in the prior years, we identified errors in the underlying property data held by the Council and provided to the valuer, such as incorrect gross internal areas held by the Council not being of the full area of the asset being valued, resulting in inaccurate valuations.

## Planned audit approach

Our audit procedures will include the following:

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

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

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
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- 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
- Reviewing the competence of the management expert (actuary)
- Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Reviewing the controls in place for providing accurate membership data to the actuary
- Contacting the pension fund auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checking that any significant changes in membership data have been communicated to the actuary.

# RECONCILIATION OF BANK ACCOUNTS

**There is a risk that the cash balance could be materially misstated if reconciling items are not cleared on a timely basis or misappropriations could remain undetected.**

## Risk detail

In the previous years we identified that there were very large and old unreconciled items on the bank general ledger. Our audit work in 2019/20 has identified that there are continues to be old unreconciled items on the bank general ledger, with the oldest item dated back to 2013. However, when compared to the previous years, we can see there was a significant decline of the number and value of large and old items, with unmatched amount of £66,212 in 2019/20 which has decreased from 2018/19 unmatched amount of £736,541.

A complete bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet and the reconciling items should relate to short-term timing differences. There is therefore a significant risk that the cash balance could be materially misstated if reconciling items are not appropriate timing differences.

## Planned audit approach

Our audit procedures will include the following:

- We will review and evaluate the controls introduced, as a result of our findings in the prior year, to reduce unreconciled differences on the bank reconciliation; and
- We will test unreconciled items on the bank reconciliation to ensure reconciling items are genuine and are appropriately cleared after the year-end.

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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# RELATED PARTY TRANSACTIONS

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

## Risk detail

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

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

## Planned audit approach

Our audit procedures will include the following:

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

Significant risk  
 Normal risk  
 Fraud risk  
 Assess design & implementation of controls to mitigate  
 Significant Management estimates & judgements  
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# SUSTAINABLE FINANCES (USE OF RESOURCES)

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

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

## Risk detail

In February 2021, the Council updated its Medium Term Financial Strategy (MTFS) covering the period 2021 to 2026. Since the Local Government Finance Settlement was published on 17 December 2020, the 2021/22 budget now assumes a 1.99% increase to Council Tax and an additional 3% Audit Social Care precept. As a result the proposed balanced budget has reduced the requirement for using reserves of £1.7 million.

As at 31 March 2021, the Council closed with a small underspend of £0.1 million and this enabled the Council's general reserve to be maintained as planned at the opening balance of £15.8 million. The total impact of Covid-19 on expenditure was £39 million, which has been offset by Government support, although there is a forecasted additional £20 million negative impact on the collection fund in 2021-22.

The outturn position for the Dedicated Schools Grant (DSG) is a £6.8 million overspend, leaving a total deficit of £17.0 million which must be addressed via DSF funds in the future and cannot be met from the Council's general funds.

The Council has identified savings plans over the medium term but there is currently a £15.6 million funding gap, cumulative to 2026 (£2.0 million, £3.2 million, £6.7 million and £3.7 million for 2021/22, 2022/23, 2023/24 and 2024/25 respectively). The savings targets are significant and the achievement of these is inherently challenging.

There is a significant risk that any shortfall in the delivery of savings, non-realisation of assumed government funding and failure to reduce the current funding gaps will have a negative impact on future projected targets in the MTFS.

## Planned audit approach

Our audit procedures will include the following:

- Review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government funding applied;
- Monitor the delivery of the budgeted savings in 2020/21 and the plans to reduce services costs and increase income from 2021/22; and
- Review the strategies to close the budget gap in the coming years.

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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.

The risks identified to date are set out on pages 21 above.

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), how the Council ensures it delivers its role, engages with stakeholders, monitors performance and acts for improvement within significant partnerships (Improving 3Es) and how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency (Governance). We are however not yet in a position to report any risks of significant weakness.

We will update the Corporate Committee on risks of significant weakness and planned work when it meets on 4 February 2022 and, subject to risks being identified, will issue an updated version of this report.

# GOING CONCERN

**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:

- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements
- (b) To report in accordance with ISA (UK) 570.

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

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

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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 Corporate Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management have stated that they 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 review the reports issued by the Council's internal audit function although we do not plan place reliance on their work in respect of their assessment of control processes. We expect to place reliance on internal audit's work on the Council's arrangements under the new methodology applicable for our use of resources work. If as a result of our review, we conclude that reliance is not possible, we will report this to you and also perform alternative procedures.

## 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. Specialist teams within BDO will review VAT and employment tax compliance.

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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

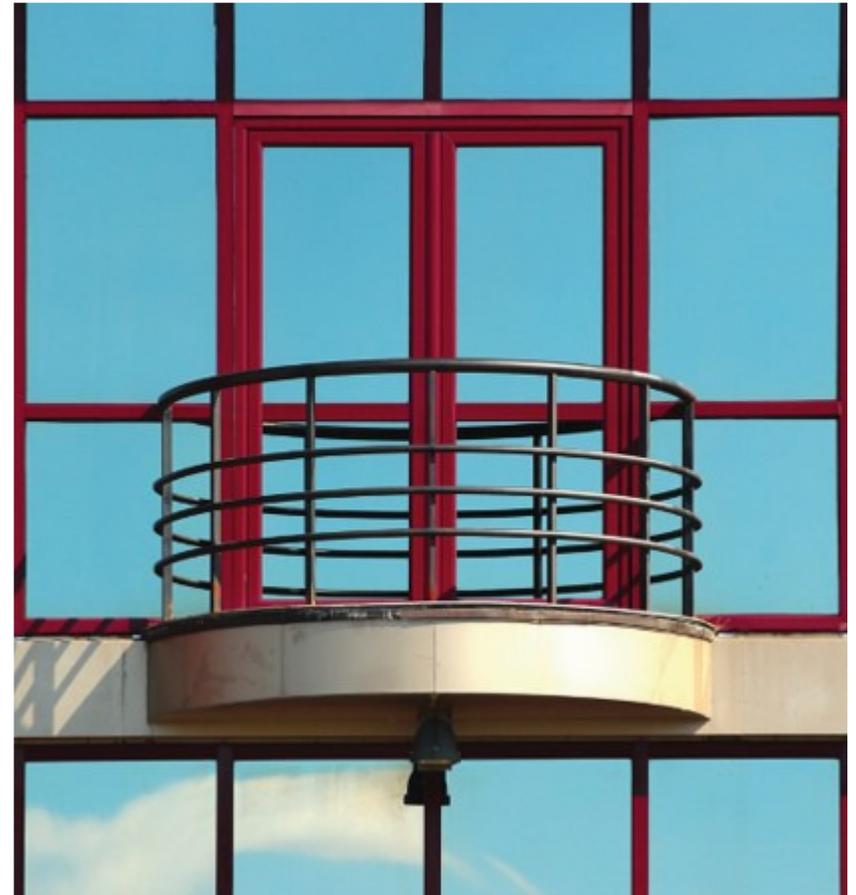
We will report to you on the sufficiency and content of your financial statement disclosures.

## Contingencies

We request input from the Corporate Committee on recent claims.

## Any other matters

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



# IRREGULARITIES (INCLUDING FRAUD)

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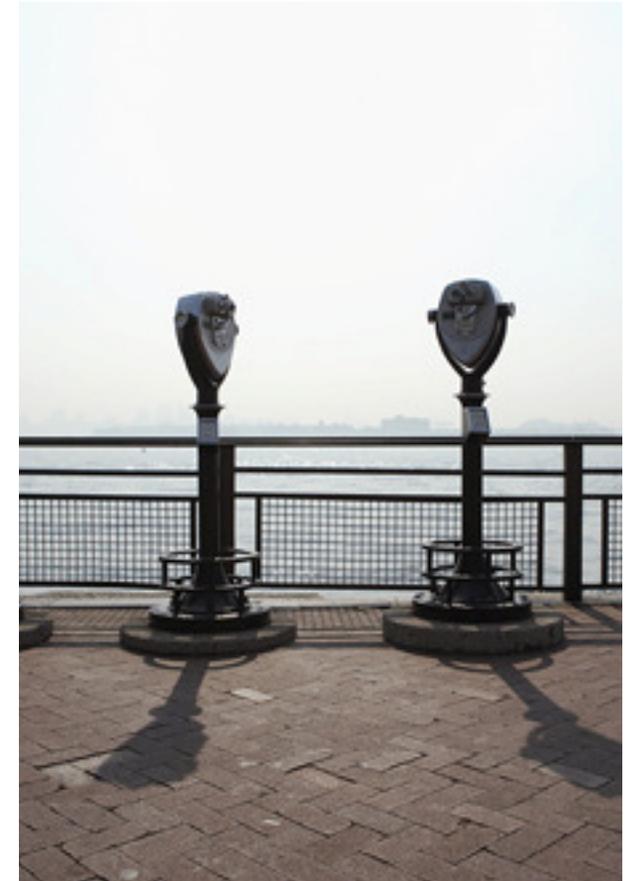
We are required to include in our auditor’s report an explanation of the extent to which the audit is considered capable of detecting irregularities, including non-compliance with laws and regulations and/or fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as a whole are 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 Corporate Committee 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.



# ACCOUNTING ESTIMATES

**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. This will include pension fund assumptions, valuation of housing, other land a building and investment properties, and allowances of non-collection of receivables.

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# IT GENERAL CONTROLS

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

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

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

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

- SAP (general ledger and payroll);
- ICON (income receipting);
- Northgate (collection fund and housing benefits);
- Mosaic (social care case management and finance);
- OHMS (housing management system); and
- CIPFA (asset management system).

At the point of finalising this report, our specialist IT auditors have recently completed work on ITGCs. This has identified a number of areas of weakness that we need to discuss with Management because these issues are expected to impact upon our audit strategy and the approach to and quantum of other audit testing necessary to support our audit opinion. A feedback meeting is currently being arranged. We hope to be able to update the Corporate Committee at the meeting on 16 November 2021.



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# FEEDBACK FROM PLANNING DISCUSSIONS

We have completed our initial planning enquiries relevant to the audit of the financial statement and have identified the below significant control deficiency. We have not reported this as a significant risk for the 2020/21 audit however we are raising it as a control deficiency to ensure that the Council are sufficiently prepared for the implementation of IFRS 16 leases from 1 April 2022.

## Implementation of IFRS 16

The Code of Practice on Local Authority Accounting requires the implementation of IFRS 16 (leases) in 2022/23. This is a significant change to the financial reporting requirements for the Council. The preparation for this change represents a major piece of work.

Within our prior year audit we identified a significant number of errors within the operating leases disclosure note. Following the identification of errors, management reviewed a number of further leases to quantify the errors.

As part of our planning discussions for 2020/21, management have confirmed that the exercise to review all leases is still ongoing.

There is a risk that the disclosure required in the accounting standards not yet adopted note, and the full disclosures in the 2022/23 financial statements are not accurate if the Council does not undertake the necessary preparatory work to enable the smooth implementation of IFRS 16.

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# 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
<b>The objective, reasonable &amp; informed third party test</b>	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.
<b>Contingent fees</b>	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
<b>Secondments</b>	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
<b>Recruitment and remuneration services</b>	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.

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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 ended 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.

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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 Corporate 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.



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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 Corporate Committee.

In communicating with the Corporate 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.

# TEAM MEMBER ROTATION

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

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



### Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
David Eagles Engagement lead	1	5 years
Lucy Trevett Senior Manager	1	10 years

### Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	3	10 years

# MATERIALITY: DEFINITION AND APPLICATION

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### Concept and definition

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

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

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

- Narrative disclosure e.g. accounting policies, going concern
- 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.

# MATERIALITY: DEFINITION AND APPLICATION

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

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

**Unadjusted errors**

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

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

We will obtain written representations from the 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.

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 2020/21

## BDO Performance

### Overview

The FRC released their Audit Quality Review results for the 7 largest accountancy firms in July 2021 for the review period 2020/21. 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. Scott Knight the Head of Audit made the following comments in response to these results:

*“Quality is an absolute priority for our firm; evidenced by the fact we achieved some of highest publicly reported grades for audit quality in 2018 and 2019.*

*We are therefore very disappointed with this year's grades and are working hard to address the specific findings. In particular, we continue to invest in additional resources. Within the last year, we have increased our audit headcount by more than 250 people (14%), invested heavily in new partners, and commenced a significant investment programme in our central quality support team.*

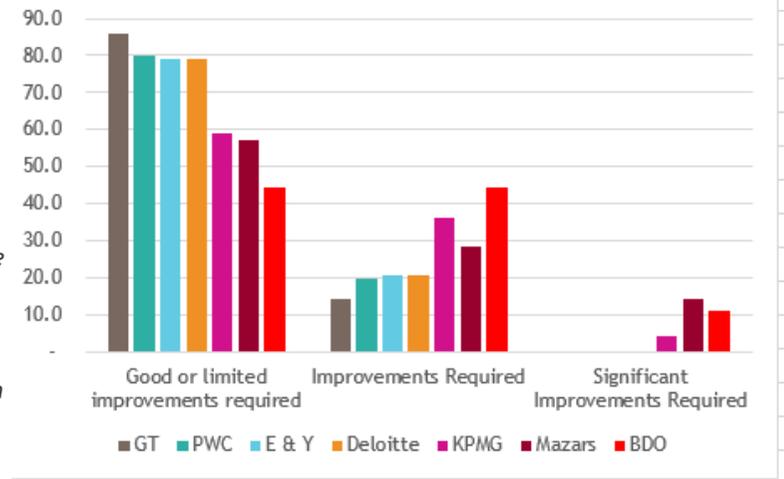
*Working closely with the FRC, we are confident these steps will result in sustained improvements over the coming years.”*

We have reissued our Audit Quality Plan (“AQP”) in March 2021 and include an overview on the next few pages. We are updating the AQP to incorporate further actions in response to the AQR findings to enhance audit quality which include but are not limited to:

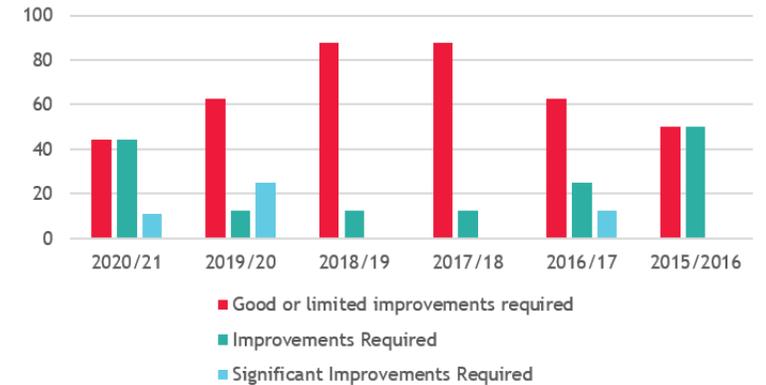
- Performing root cause analysis to identify the underlying causes of the findings and implementing appropriate actions to address the root cause
- Enhancing guidance and materials for engagement teams in areas that gave rise to AQR findings and providing targeted mandatory training through both the annual three day Summer school and a full day of dedicated audit of revenue training
- Investing significantly in talent across the audit stream including specifically in IT audit and the central support functions.

We would encourage you to read both the AQR report and our Transparency Report which will include more details and is available on our website [www.bdo.co.uk](http://www.bdo.co.uk)

AQR Results 2021 by firm



BDO AQR Results - Year on Year



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# AUDIT QUALITY PLAN

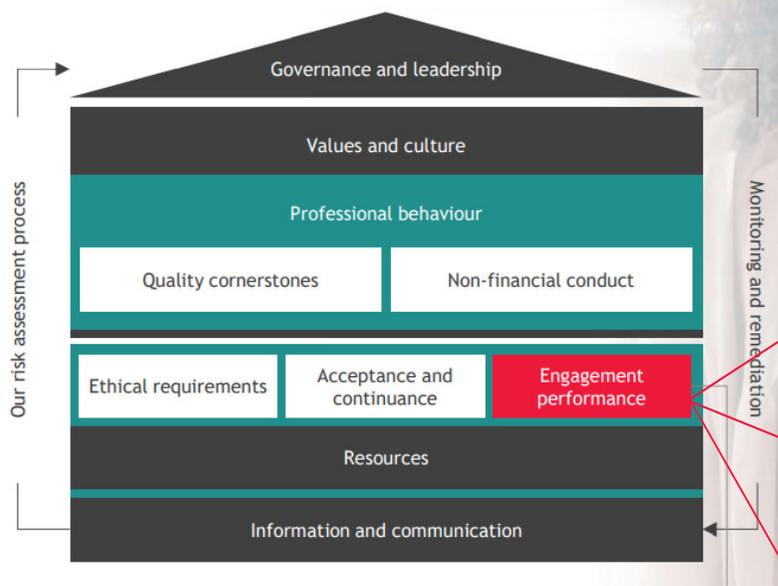
## Focus on Audit Quality

The Audit Quality Plan is a key part of our system of quality management and how we ensure audit quality is a fundamental factor in engagement performance

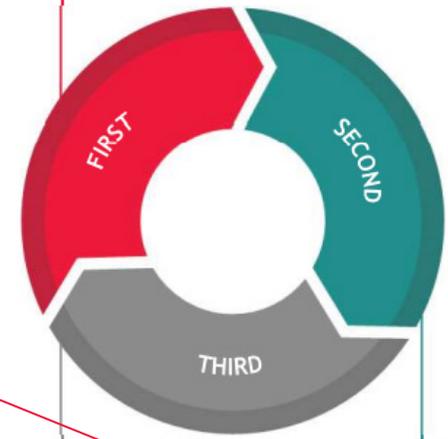
The Audit Quality Plan was substantially revised in March 2021.

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### OUR SYSTEM OF QUALITY MANAGEMENT - AN INTEGRATED APPROACH



Individual audit teams are our **first line of defence** as you own and manage the audit quality risks



Our **third line of defence** comprises the functions that provide independent assurance - the firm's monitoring and assessment of the quality of audits delivered and the effectiveness of its policies and procedures

Our **second line of defence** comprises the firm's functions that oversee or specialise in audit quality management and compliance - the central policies, procedures and resources put in place by the firm for delivering good quality audits

# AUDIT QUALITY PLAN 2

## 4 key Audit Quality Risk Areas

The Audit Quality Plan is a working document to drive audit quality - it identifies key areas of focus and emerging trends, explains key actions being undertaken to support the themes identified, monitors how well these actions are resolving issues and adapts for continuous improvement in audit quality and to react to changing themes

The Audit Quality Plan helps to ensure audit quality remains at the top of our agenda both amongst the leadership of the firm but also in the focus and behaviours of each individual member of the audit stream. It also links in audit quality to the strategic focus of the firm.

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The Audit Quality Plan consists of three key areas:

### DELIVERING ON OUR AMBITION



KEY AUDIT QUALITY  
RISK AREAS



CYCLE OF CONTINUOUS  
IMPROVEMENT AND  
HORIZON SCANNING TO  
IDENTIFY AND RESPOND TO  
AUDITQUALITY THREATS



THE BUILDING BLOCKS  
THAT WILL SUSTAIN AUDIT  
QUALITY

# AUDIT QUALITY PLAN 3

## 4 key Audit quality risk areas

Our key audit quality risk areas are borne out of findings from external and internal reviews and also horizon scanning undertaken by the Quality Steering Committee and Audit Executive as to the areas that will need to be focussed on in coming years. They focus on the areas which, if not audited diligently and robustly pose the most significant threats of corporate failure and reputational damage to BDO.

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Audit of Revenue

Going Concern

Detecting Material Fraud

Effective Challenge of Management

# AUDIT QUALITY PLAN 4

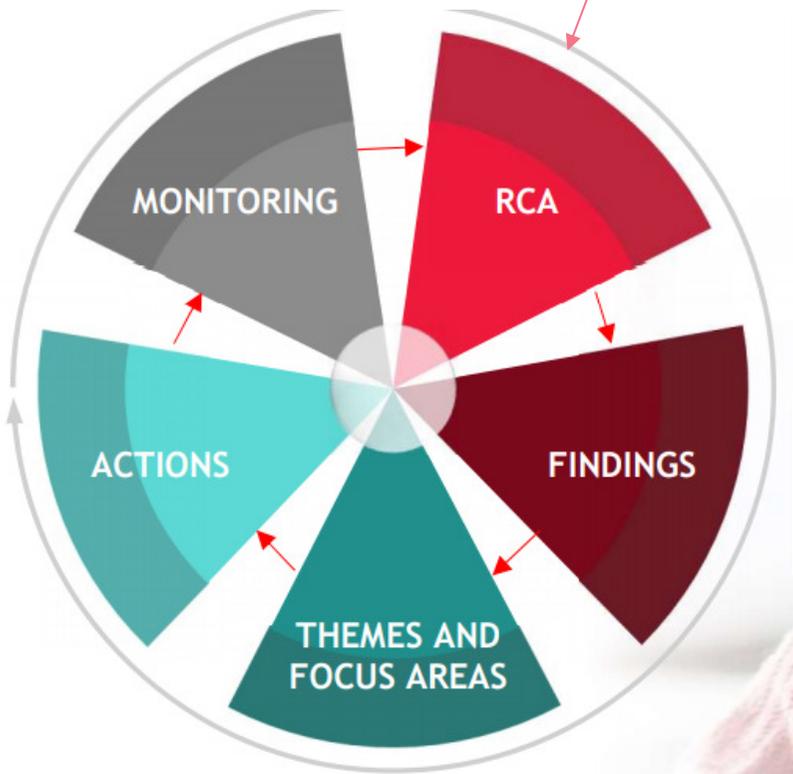
## Cycle of continuous development

Inputs to RCA include

- File reviews - both external and internal
- Firmwide/streamwide/sector wide issues
- Internal findings from prior year adjustments
  - Areas of good practice

All actions undertaken are monitored by a central board - the Quality Steering Committee - where actions are not addressing issues more RCA is performed

Root Cause Analysis (RCA) is a fundamental part of our quality framework to help identify causes of the good and bad outcomes



Actions are created and approved by the QSC and included within the Audit Quality Plan action plan

The findings from the RCA are shared with the central Quality Steering Committee who consider responses

Commonality between findings and areas of focus are identified to ensure priority is given to areas requiring immediate attention

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# AUDIT QUALITY PLAN 5

## 7 Building blocks to sustain audit quality

The themes identified by the Audit Executive as being areas which are critical to achieving our ambitions in relation to audit quality on a consistent basis and include a focus in relation to actions undertaken

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	THE RIGHT WORK BY THE RIGHT PEOPLE AT THE RIGHT TIME	TONE AT THE TOP AND THROUGH THE AUDIT STREAM	RESOURCING
<b>OBJECTIVE</b>	Tailored and effective audit strategies delivered by teams with the appropriate skills, experience; supported by rigorous project management and effective review procedures.	Audit Quality remains our first priority and this is communicated clearly, demonstrated in behaviour and clearly understood by our people.	Ensure we have sufficient resource, in terms of people and skills, to allow the right people to do right work at right time and achieve controlled growth.

	CULTURE OF CHALLENGE	CENTRAL SUPPORT AND OTHERS	FOCUS ON HORIZON SCANNING AND FINDINGS
<b>OBJECTIVE</b>	Embed a culture of constructive challenge both in respect of financial reporting by audited entities and internally to identify how we can improve audit quality.	Ensure we provide sufficient central support and platforms to service engagements as we grow. This means both scale of our platforms and access to skills.	Horizon scan for areas likely to be an issue in future and address issues identified by reviews or case examinations to provide relevant and timely action.

	HIGHLY EFFECTIVE TRAINING PROGRAMME
<b>OBJECTIVE</b>	Establish a training focused culture. Provision of training programs that are highly relevant, accessible, engaging and responsive to the complex regulated environment in which we operate.

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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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