Report to the Corporate Committee on 2 February 2023

LONDON BOROUGH OF HARINGEY COUNCIL

Progress Report: year ended 31 March 2021

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CONTENTS

WELCOME

Contents

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

It summarises the results of our work to date for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Corporate Committee. It includes the findings, conclusions and misstatements identified to date. We will provide an update on outstanding work at the Corporate Committee.

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

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

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

23 January 2023

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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. 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.

This summary provides an overview of the audit matters that we believe are important to the Corporate Committee in reviewing the results of the audit of the Group financial statements and single entity financial statements of the Council for the year ended 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

This report includes only those matters arising from the audit work completed up to the date of its issue. As the audit is still subject to completion, other matters may arise between this date and the date of the Corporate Committee and the date of us issuing our audit opinion.

We will provide a verbal update to Committee members on any changes, before issuing a final Audit Completion Report prior to the issue of our independent auditor's report.

Overview

Our audit fieldwork on the financial statements is in progress.

We presented our Audit Planning Report to the Corporate Committee in November 2021. No additional significant audit risks have been identified.

Our work on the Council’s value for money arrangements is in progress. We will report the results of our work to those charged with governance in our Auditor’s Annual Report. We expect to publish our report no later than three months following the date of our audit opinion.

No restrictions were placed on our work.

Audit report

To date, nothing has come to our attention from work completed to date that would result in modification of the audit opinion on the consolidated Group financial statements, or the single entity financial statements.

We have no exceptions to report at this stage in respect of the value for money arrangements.

Our audit certificate will be issued when we have completed our work on value for money arrangements.

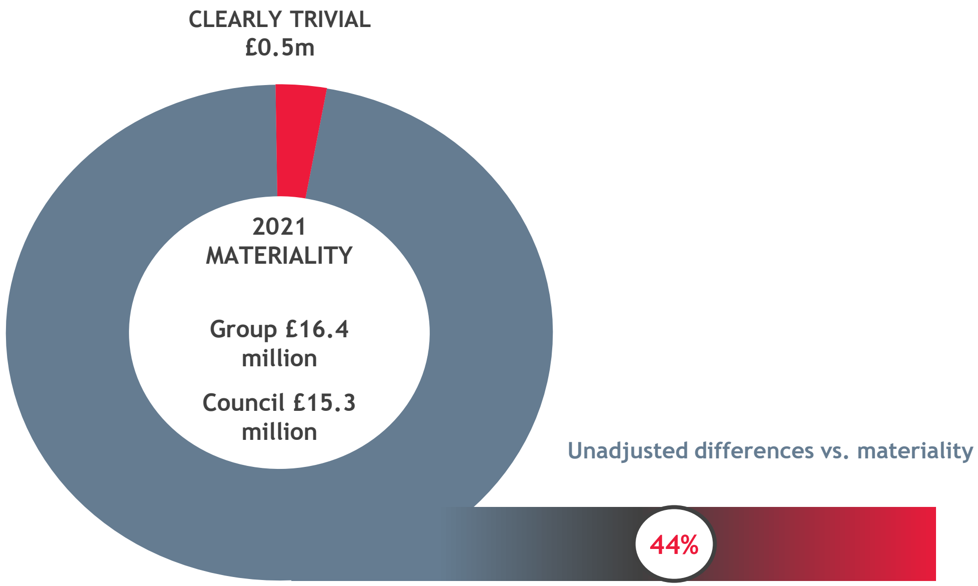
THE NUMBERS
Executive summary

Contents

Final materiality

Materiality for the Group and the Council, was determined based on 1.5% of gross expenditure of the Group financial statements and the Council financial statements.

We have increased our materiality from £14.8 million to £15.3 million (Group materiality has remained the same at £16.4 million) as a result of an increase in the final outturn of gross expenditure compared to the prior year.



Material misstatements

From the work completed to date, we have not identified any material misstatements.

Unadjusted audit differences

We have identified several audit differences which are detailed on page 26.

We are currently in discussion with management with regards to which of these adjustments will be adjusted for in the final financial statements.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).

We have audited the Council's financial statements under the NAO's Code of Audit Practice.

Homes for Haringey is audited by PwC and Alexandra Park and Palace Charitable Trust is audited by Hays Macintyre.

Financial reporting

- We have not identified any non-compliance with Group accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events

Independence

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

AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report (November 2021), we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team. No additional significant audit risks have been identified.

Audit Risk	Risk Rating	Impact of management estimate or judgement	Use of experts required	Error identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Medium	No	No	No	No
Revenue recognition	Significant	Medium	No	Yes	No	No
Expenditure cut-off	Significant	Low	No	Yes	No	No
Valuation of non-current assets	Significant	High	Yes	No	No	No
Valuation of pension liability	Significant	High	Yes	No	No	No
Reconciliation of bank accounts	Significant	Low	No	No	No	No
Allowance for non-collection of receivables	Significant	Medium	No	No	No	No
Related party transactions	Normal	Low	No	No	No	No
Sustainable finances (use of resources)	Significant	N/A	N/A	N/A	N/A	N/A

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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

- **Significant risk** (selected)
- **Normal risk**
- **Significant management estimate or judgement**
- **Use of experts**
- **Unadjusted error**
- **Adjusted error**
- **Additional disclosure required**
- **Significant control findings to be reported**
- **Letter of representation point**

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreed the journals to supporting documentation. We determined the key risk characteristics to filter the population of journals and used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

We used our data analytics tool, BDO Advantage, to analyse journals processed throughout the year and as part of the financial reporting. We identified several journal entries that we considered to be high risk.

Our review noted that all journals were adequately supported and related to transactions in the normal course of business. No evidence of management override has been identified.

From the work completed to date on our review of management estimates, we have not identified the existence of any systemic bias.

There were no unadjusted audit differences which could indicate bias or deliberate misstatement.

Conclusion

Based on the work we have completed; we have no matters to bring to your attention.

REVENUE RECOGNITION

Contents

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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

Work performed

Our audit procedures included 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 was met.

Results

Our testing of revenue and capital grants confirmed that these were generally recognised when performance conditions attached to them had been satisfied. We identified one factual error for £905k (extrapolated error of £971k) with respect to an over-accrual of a Transport for London (TFL) grant (see adjustment 2 on page 26).

We have undertaken a review of Covid related grants and from the work completed to date, confirmed that we concur with the Council's accounting treatment as either agent or principal.

Conclusion

Based on the work we have completed we have identified an error in respect to an over-accrual of a grant.

EXPENDITURE CUT-OFF

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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).

Work performed

We carried out the following planned audit procedures:

- Checked that the expenditure was 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.

Results

Our audit work on expenditure cut off has tested a sample of items around the year-end, by agreeing them to supporting documentation, determining which financial period the expenditure was related to and confirming that the expenditure has been recognised in the correct year, with accruals/creditors or prepayments recognised where necessary.

We have confirmed one cut off error for £2.96m in respect of Berkeley Square Development costs which related to March 2021 expenditure not accrued for in the financial statements (see adjustment 1 on page 26).

We are currently in discussion with management with regards to several other expenditure transactions which have not been accrued for in 2020/21. However, we anticipate that these are a consequence of the Council's accrual policy and the de-minimus level of £20k for expenditure accruals.

Conclusion

Based on the work we have completed, we have identified one misstatement for £2.96m in respect of expenditure transactions which should be accrued for within the 2020/21 financial statements.

VALUATION OF NON-CURRENT ASSETS

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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

Work performed

We carried out the following planned audit procedures:

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

Results

Please see subsequent slides for results of work performed.

Conclusion

Our work is ongoing and we cannot provide preliminary conclusions at this point.

VALUATION OF NON-CURRENT ASSETS

Contents

Council dwellings

Council dwellings have increased in value by £70.1m, including revaluation gains of £42.1m.

Council dwellings are valued at open market value and adjusted to 25% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional (London) differences between market rents and social rents. The valuer has adopted the Beacon approach when valuing the council dwellings, where the properties are allocated into relevant Beacons (for similar types of properties) and valued by reference to recent sales data for similar properties.

Beacons are normally valued on a 5-years rolling programme with approximately 20% revalued each year. The remaining properties not revalued in year are adjusted by local price indices, such as data provided by the Land Registry. For 31 March 2021, a full revaluation of all beacons (circa 450) took place.

The key input to the valuation is the allocation of all dwellings into an appropriate Beacon. For a sample of dwellings we confirmed that these were allocated to an appropriate Beacon by reference to location, architype and number of bedrooms.

The key estimates are the open market value of a Beacon by reference to recent similar sales for revalued Beacons. We reviewed Beacon valuations to data used by the valuer to confirm that appropriate similar recent sales had been used. In order to assess the valuation, we have created an expectation range on the year on year movement in the Beacon between 2019/20 and 2020/21 by reference to five different Housing Price Indexes. For those beacons that were outside of the expected range (circa 300), we have conducted further market research and discussed our findings with the valuer.

We note that the valuer had used three comparator sales (of properties that the valuer considered sufficiently similar to the Beacon type) to support the Beacon revaluation. However, the valuer has provided little evidence for us to review to assess whether further adjustments should be made to the comparable property sold for issues such as price movements from the date of sale to the date of valuation, size differentials or specific location adjustments for the property.

Our expectation would be that price adjustments are made for date of sale and other property specific adjustments for size, specific location, standard of decoration, access to gardens etc. This is likely to result in larger variances for re-priced Beacons and may account for the larger outlier movements for revalued Beacons in each year.

We noted that several of these differences appear to be as a result of the location of the Beacon property compared to the comparable sales. To substantiate that there are no significant differences as a result of different locations being used, we have obtained deprivation maps of Haringey and undertook reviews to see whether locations used are comparable. Our initial review of this has identified some differences, which we are currently investigating.

We are currently in discussion with management and the external valuers (Wilks, Head and Eve) with regards to this matter and how further assurance can be obtained to support the comparable sales used in the Beacon revaluation. As part of this, we have engaged with our internal property valuation specialists, to substantiate any explanations provided for differences between the Beacon property and the comparable sales.

Our audit work on council dwellings is in progress.

VALUATION OF NON-CURRENT ASSETS

Contents

Non-school land and buildings

For operational, non-specialised properties, these valuations may be based on:

- income approach using the current net profits for the assets at market driven yield expectations for similar types of assets (eg car parks, markets); and
- recent market sales prices for similar assets adjusted for size and condition.

The significant valuation assumptions are the market yield applied to net profits and sales of similar properties.

For specialised properties, they do not have a market value due to their specialised nature are valued on a depreciated replacement cost basis. This valuation estimates the cost of replacing the 'service potential' of that asset using modern materials and adjusted to reflect the age and obsolescence of the asset to reflect its remaining useful economic life.

We set detailed expectations for year on year valuation movements in asset values, taking into account various external sources of information tailored to the individual assets that were revalued. For those assets where the valuation movement was outside of the expected range, we reviewed the valuer's calculations and assumptions. We also selected all material properties and a sample of others to review the accuracy and completeness of the data inputs used by the valuer. Our audit of the valuation is still in progress.

Our testing identified a significant number of valuations where the evidence for inputs into these valuations, specifically gross internal floor areas were post valuation date. Work is ongoing to confirm no significant movements in these inputs have occurred between the evidence date and the valuation date.

Our audit work on other land and buildings is in progress.

VALUATION OF NON-CURRENT ASSETS

Contents

Schools land and buildings

Schools do not have a market value due to their specialised nature are valued on a depreciated replacement cost basis. This valuation estimates the cost of replacing an asset with its modern equivalent less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

The valuer has used tender rebuild prices provided by RICS with a Haringey location cost adjustment, using an appropriate rebuild cost per square foot for each type of property. The valuer has applied an ageing adjustment using the original build date of the property and standard useful economic lives for each type of property to reflect the percentage of the remaining economic live, with ageing only coming into effect after the first 10 years of its construction as little ageing in the building is expected in these initial years. The key input to the depreciated replacement cost valuations is the size of the building and the key estimate is the rebuild cost to be applied.

We set detailed expectations for year-on-year valuation movements in asset values by comparing changes in build cost and location cost adjustment factor for 2020/21. For those assets where the valuation movement was outside of the expected range, we reviewed the valuer’s calculations and assumptions.

We also selected all material schools and a sample of others to review the accuracy and completeness of the data inputs used by the valuer.

Our testing identified a significant number of valuations where the evidence for inputs into these valuations, specifically gross internal floor areas were as at the audit date. Work is ongoing to confirm no significant movements in these inputs have occurred between the evidence date and the valuation date.

Our audit work on schools land and buildings is in progress.

Investment properties

Investment properties are valued using an income based approach with reference to current use and rental values. Surplus assets are valued by reference to highest and best use market value. These valuations are based on the current passing rents for existing lease terms, expectations about future rents at the next rent review, market driven yield expectations for similar properties and the covenant strength of the existing leases. The significant valuation assumption is the market yield applied to the rents.

Investment properties increased in value by £2.5m (to £89.2 million). This is driven primarily by transfers from PPE and Assets Held for Sale of £8.0m offset by revaluation losses of £5.7m.

We set expectations on the valuation movement for the portfolio based on year-end market trends by property type (such as office, retail or industrial). For those properties where the valuation movement was outside of the expected range, we reviewed the valuer’s calculations and assumptions. We also selected all material properties and a sample of others to review the accuracy and completeness of the data inputs used by the valuer. Testing is yet to be concluded on.

As part of our review, we have set the ranges for each asset type to ensure they accurately reflect the market. We have also added a deviation to each range in order to reflect location factor given that Haringey is based on the outskirts of London as opposed to central. A key area of documentation we are discussing with management is around accurate lease data to support the market rents on which the property valuations are based.

Our audit work on investment properties is in progress.

VALUATION OF NON-CURRENT ASSETS

Contents

Infrastructure assets

Historically, it has been generally accepted public sector practice for highways authorities to not write out the value of replaced highways infrastructure components and/or those components which are fully depreciated from the balance sheet. This practice has recently been highlighted as contrary to the Code requirement that the carrying amount of replaced components be written out of the Balance Sheet. There are a number of reasons for the practice being adopted including; asset registers not recording infrastructure assets with sufficient level of detail to identify individual infrastructure assets or changes to them; processes which drive infrastructure spend (e.g. condition surveys) do not record historical information relating to previous spend.

Over time, this is likely to have resulted in a material overstatement of gross book value and accumulated depreciation and net book value may be materially overstated if infrastructure is being replaced more frequently than useful economic lives suggest. We understand that Haringey Council adopts this common approach to accounting for infrastructure assets.

The Council has infrastructure assets to the net book value of £184.8m (gross cost £309.0m).

This issue has been raised nationally with the NAO and all public sector audit suppliers and discussed further at the Local Government Technical Networks.

Following consultation, CIPFA has published the CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution which covers the issues to be considered regarding the temporary solution for the accounting and reporting issues relating to infrastructure assets. While key considerations have been given to highway assets, this solution applies to all infrastructure assets.

The temporary solution includes the update to the Code by way of a statutory override from 1 April 2021 to 31 March 2025 which features a temporary relief not to report gross cost and accumulated depreciation for infrastructure assets and the statutory prescriptions.

These amendment regulations provide that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (i.e. either a nil amount or to follow the Code). The updated Code specifies that an authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets.

A key consideration for the Council would be around depreciation and using a method that reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed. As part of this, Councils will need to review the pattern of consumption to ensure that appropriate useful lives are assigned to the various parts of the infrastructure assets.

Normally useful lives would be set by an authority based on their expert's views on the length of useful life either remaining if net book values are used or if using gross cost an estimate of the total useful life of an asset for an authority. As part of the guidance published, CIPFA has included reasonable ranges of useful lives of the components of highways infrastructure assets based on information provided by the UK Roads Leadership Group Asset Management Board to assist local authorities.

VALUATION OF PENSION LIABILITY

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The 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.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary
- Reviewed the competence of the management expert (actuary)
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Reviewed the controls in place for providing accurate membership data to the actuary
- Checked that any significant changes in membership data had been communicated to the actuary.

Results

No issues were found in assessing the competency of managements experts. The accounts were adjusted for the updated IAS 19 figures and the revised note was then reviewed for the agreement of disclosures to information provided by the actuary.

The assumptions on which the Council has based its disclosure are consistent with those used by the actuary, which are in line with the expectations set out in PwC's consulting actuary report. Our consideration of the assumptions used in the valuation are detailed on the following pages.

The pension fund audit is still in progress. However, no control issues over the provision of accurate and complete membership data to the actuary have identified by the pension fund auditor.

Conclusion

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

VALUATION OF PENSION LIABILITY

Contents

The Council's pension liability has increased from £1,576.3 million to £2,000 million and its share of the scheme assets increased from £1,082 million to £1,315 million.

We have compared the key financial and demographic assumptions used to an acceptable range provided by our consulting actuary.

PwC is engaged by the NAO to assess the work of actuaries providing IAS19 pension liability services to local public services. We have checked that the employer has used the standard assumptions proposed by the actuary that have been concluded as appropriate by PwC and documented our results on the next page.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.3%	3.20 - 3.35%	Reasonable
- CPI / pensions	2.85%	2.8 - 2.85%	Reasonable
- Salary increase	3.85%	2.8 - 3.85%	Reasonable
- Discount rate	2%	1.95 - 2.05%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	21.7 years	21.9 - 22.7	Reasonable
- Female current	24.2 years	23.9 - 24.9	Reasonable
- Male retired	23.1 years	23.1 - 24.3	Reasonable
- Female retired	26 years	25.4 - 26.7	Reasonable
Mortality gains	CMI 2020 (+1.5% improvement rate)		Reasonable

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

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.

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

In the previous years we identified that there were large and old unreconciled items on the bank general ledger.

Our audit work in 2019/20 identified that there continued 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 notable 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.

Work performed

We carried out the following planned audit procedures:

- We reviewed and evaluated the controls introduced, as a result of our findings in the prior year, to reduce unreconciled differences on the bank reconciliation; and
- We tested unreconciled items on the bank reconciliation to ensure reconciling items were appropriately cleared after the year-end.

Results

We have documented and evaluated the controls in place for bank reconciliations. These were deemed appropriate for the nature of the balance.

We have obtained the bank reconciliation as at 31 March 2021 and reviewed the reconciling items included within it. We noted that there were £462k of unmatched reconciling items at the time of preparation of the bank reconciliation, which we are currently investigation, which could indicate that the bank balance is overstated. This is a notable deterioration in the position since the £66k for 2019/20.

We have selected a sample of reconciling items to trace to post year bank statements to ensure these are genuine reconciling transactions and have appropriately cleared. A number of queries have been raised for resolution with management.

Conclusion

Our testing of reconciliation of bank accounts is in progress.

ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES

Contents

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Estimating potential losses from defaults on amounts due will be subject to a greater degree of estimation than in previous years, historical collection rates may offer only some indication of potential future losses and assigning key economic metrics that may reflect patterns of historic default rates may be imperfect in the current conditions.

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. The Council assesses each type of receivable separately in determining how much to allow for non-collection. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

IFRS9's Expected Credit Loss model applies to financial assets but does not include amounts receivable under statute such as council tax and business rates receivables.

Work performed

We reviewed the provision model for significant receivables balances to assess whether it appropriately reflects potential default losses in light of current conditions using historical collection rates, an assessment of potential defaults for customers making use of deferral arrangements and aging of debt, and future losses and assessing the sensitivities to the impairment calculation and assumptions used by management

Results

Management has applied historical default rates (incurred losses) using system data to determine the credit losses on both the statutory debt and on trade receivables that fall within the scope of IFRS9. The Council does not have the data to establish which customers that are taking advantage of any deferred payment arrangements may be in financial difficulties, and historical collection rates may only offer some indication of potential future loss for these customers.

Our review of the assumptions used to calculate the impairment allowance for non-collection of receivables is ongoing. Whilst we noted that most allowances were found to fall within a reasonable range based on the available data for historical collection rates, we have raised a few queries with management for resolution.

Management will also need to consider whether historic collection rates are still the best estimate given the difficult economic climate some of its debtors may be facing as well as carrying out more detailed expected credit loss analyses for sundry debts in order to comply with the requirements of re-measuring financial assets under IFRS9.

Conclusion

Our review of allowance for non-collection of receivables is in progress.

RELATED PARTY TRANSACTIONS

Contents

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

- Significant risk
- Normal risk
- Significant management estimate or judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant control findings to be reported
- Letter of representation point

Risk description

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.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls in place to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed councillors' and management declarations to ensure that there were no potential related party transactions which were not disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

We have deemed that the processes and controls in place to identify and disclose related party transactions are appropriate for an organisation of this size and nature.

We have agreed related party disclosures per the financial statements to supporting documentation to confirm accuracy and completeness however we are currently resolving a few queries with management.

We have reviewed all declarations and undertaken a Companies House search to confirm that there were no undisclosed related parties or related party transactions which require disclosure. We noted that one senior officer who left during the year had not provided a declaration. However, we note that the Council has made sufficient and active attempts to obtain this.

Conclusion

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

USE OF RESOURCES

The Council will need to deliver it 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	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

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

Risk description

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 to 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 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 was £39 million, which has been offset by Government support, although there is a forecasted additional £20 million 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.

USE OF RESOURCES

Contents

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 risk identified to date is set out on page 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 have not yet completed our work on the Council's value for money arrangements. The results of this work will be reported in our Auditor's Annual Report. We expect to publish our report no later than three months following the date of our audit opinion. To comply with requirements of the Code of Audit Practice 2020/21 we have reported to you that this work has not been completed.

GOING CONCERN

Contents

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

Management's assessment of going concern

The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.

Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The code further highlights that were an authority is facing financial difficulties such difficulties should be disclosed. Management has prepared the financial statement's statement on a going basis based on its assessment and the requirements of the code.

Discussion and conclusion

Our review of management's assessment is on going however, to date, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue which needs to be disclosed.

OTHER MATTERS

We comment below on other matters we would like to bring to your attention:

Matter	Comment
Privileged User Access to Northgate As part of ITGC review, it was identified that eight employees had privileged user access to the Northgate system without having appropriate segregation of duties in place.	In response to this matter, we have obtained audit data for all eight individuals to identify amendments to the revenue accounts. For 7 of these individuals, between them, a total of 93 amendments were made, all of which the audit team are reviewing in full. However, for the remaining individual, a revenue account manager, over 10,000 amendments have been made. While we appreciate this is in line with the nature of their role, we are unable to undertake audit procedures on all amendments made to gain assurance that none of these amendments are inappropriate as a result of a lack of segregation of duties. We are in discussion with management to understand what mitigating controls are in place to prevent the creation of false accounts on Northgate and how the Council is comfortable that individuals with privileged access aren't creating fake accounts or fraudulently amending accounts.
Parking Debtor The net value of the parking debtor in the 2020/21 financial statements is £1.5m. However, this balance is made up of a gross parking debtor of £30.5m and an expected credit loss of £29.0m. The Civica system which hosted the parking debtor data is no longer in use and the Council did not run an account by account breakdown of this gross debtor balance as at 31 March 2021, so the composition data is not available and we therefore cannot sample test the validity of the component items.	While the net debtor is not material, the gross debtor and expected credit loss amounts are material. The Council has been in contact with Civica to obtain the relevant data. However, this has proved unfruitful. In order to gain assurance over the gross balances, we have agreed an approach whereby the starting position is 31 March 2020 (audited). This balance, plus all parking income raised in the year less parking receipts received during the year, should equate to the year end position. The Council is undertaking an exercise to pull this information together, specifically working on breaking down the in-year receipts to allocate them to the parking income raised to identify which financial year it relates to. This latter analysis is important for our assessment of the expected credit loss balance.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Fraud

Whilst the Council's officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report in November 2021.

Laws and regulations

The most significant considerations for your organisation are the:

- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Government and Housing Act 1989
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

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

Related parties

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

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

Group matters

Our review of the group working papers and information provided by subsidiary auditors is in progress.

UNADJUSTED AUDIT DIFFERENCES

Unadjusted audit differences	Council				
	Income and expenditure			Balance Sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services	**48,991**				
Unadjusted 1: Under accrual of Berkeley Square Developments costs					
Dr Expenditure	2,960	2,960			
Cr Accruals					(2,960)
Unadjusted 2 (Factual): Overstated accrual on TFL grant					
Dr Grants received in advance				905	
Cr Accrued income					(905)
Unadjusted 2 (Projected): Overstated accrual on TFL grant					
Dr Grants received in advance				971	
Cr Accrued income					(971)
Unadjusted 3 (Factual) : Understatement of Temporary accommodation income in the TB					
Dr Accrued income				953	
Cr Temporary accommodation income	**(953)**		(953)		
Unadjusted 4 (Projected): Overstatement of debtor balances due to accounting for debtors already paid at year end					
Dr Cash				781	
Cr Debtors					(781)
Unadjusted 5 (Projected): Overstated charges for services and facilities					
Dr Services and Facilities Income	**2,786**	2,786			
Cr Debtors					(2,786)
Total unadjusted audit differences	**4,793**				
Deficit on the provision of services for the year if adjusted	53,784				

REPORTING ON OTHER INFORMATION

Contents

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

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

WHOLE OF GOVERNMENT ACCOUNTS

Contents

The Council is required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The NAO issued Group Audit Instructions (GAI) and the Assurance Statement in respect of the 2020/21 WGA process in July 2022.

In a change to the process for 2020/21, HM Treasury have elected to raise the threshold for local government to £2bn, aligning it with the central government threshold.

While all entities above the minor bodies threshold will continue to have to complete and submit a WGA return, only those above the threshold as set by HM Treasury will be required to have their return subject to audit.

OTHER DEFICIENCIES

Contents

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Corporate Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
User access reviews	During our review, it was noted that user access reviews has not been performed for Mosaic, CIPFA & OHMS in scope applications and/or evidence thereof retained in order to validate the appropriateness of system level access and user activities. There is a risk that user accounts may not be disabled/removed in a timely manner. This increases the risk that unauthorised access via this open account may occur which may result in incorrect and unapproved changes to key data.	User access reviews are a second line of defence control where the operation of the preventative control surrounding the joiners and leavers process fails. It is therefore recommended that user access reviewed are performed at annually due to the size of the business and number of users and should include: > Both administrator and standard user accounts; and > User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; > Evidence of user access reviews should be retained to demonstrate effective and continuous operation and control.	TBC

OTHER DEFICIENCIES

Contents

Area	Observation & implication	Recommendation	Management response
iWorld Privileged Access	It was noted that there was a shared generic Account "RB" user that have been granted highly privileged role "ALL_ACCESS" , and although the logs are enabled on the system, there is no process in place for monitoring the activities of the aforementioned privileged access generic account. The risk of abuse of the shared generic account without accountability and undetected.	Management should ensure that formal review of generic accounts with elevated business access is performed on periodic basis to ensure that they are not abused and accountability.	TBC
Password Settings	BDO identified the following system password-setting weaknesses: • iWorld: Password settings for privileged user "RB" user were all weak except for minimum password policy length. • CIPFA: All password settings were weak and with some not even set e.g. password complexity, history and maximum age. • Civica ICON: Password complexity policy parameter was weak as it did not include alphanumeric with special characters Risk that user passwords can be guessed or become known over time to other users. As a result, user accounts are at an increased risk of being used by persons other than the legitimate account owner. Crystallisation of this risk may have resulted in a material misstatement or fraud because user accounts may have been used to: • process unauthorised, fraudulent or inaccurate transactions, and • bypass controls designed or required to segregate duties.	Management should consider strengthening the existing password settings to be in line with good practice.	The CIPFA asset managers flags up and prevents weak passwords from being set. Thus the set passwords would have met a minimum password strength requirement on this system. However, we note your recommendation and now have additional criteria in the settings.

Contents

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
System Administrator Access	iWorld TRA noted that there were 9 business users with access to both highly privileged profiles "ALL_ACCESS & SYSTEM_ADMIN" on the system which grants access to System Tab that can be used to create users, Assign User Action Group, Lock Unlock Users, Change User Password, Create roles and other Admin functions. Furthermore it was noted that although logs were enabled on the system, no one was monitoring the activities of the business users with privileged access on the system to determine if they are not abusing those accounts which might result fraudulent activities.	There is an inherent segregation of duties risk when an individual has a role in processing / approving / monitoring transactions and administering access rights on the system. Good practice is to assign the system administrator privileges to an independent individual with no business/transaction processing role. Also, to segregate user access so that no individual can input and approve a transaction on their own throughout a business process. Management should review these accounts and reduce the number of individuals having admin privileges on the application.	To be monitored when users start using the system
System Administrator Activity	There is no independent monitoring of activity performed by system administrator accounts held by members of the IT team, either at an application or database level. There is a risk that unauthorised transaction activity is performed and not detected.	We recommend that management implement audit logging that records activity performed by administrative accounts at application and database level. Administrator activity should be independently monitored, investigated as appropriate and formally signed off by an independent reviewer.	TBC

OTHER DEFICIENCIES

Contents

Area	Observation & implication	Recommendation	Management response
Debug Access	BDO noted that there were 35 interactive accounts with Debug access on SAP system. Debug access is the highest level of privileges that can be granted on the SAP application and allows a user the ability to perform any task on the application, regardless of whether or not they have the specific roles assigned. No interactive accounts should have this access assigned permanently and when required should only be granted on a time limited basis when entirely necessary. Furthermore although SM20 logs are on there is no monitoring process for the activities performed by users with administrative accounts. Debug access is the highest level of privileges that can be granted on the SAP application and allows a user the ability to perform any task on the application, regardless of whether or not they have the specific roles assigned. No interactive accounts should have this access assigned permanently and when required should only be granted on a time limited basis when entirely necessary. Any activities done by a user via Debug could be undetectable if the relevant audit logging has not been manually switched on by management and monitored. Therefore, material changes could be made to the application data which may go undetected by management, leading to an inaccurate view of the financial position being shown.	In order to address the risks identified within the privileged access observations noted, we encouraged management to apply the following: 1. Debug access should not be assigned to any accounts on a permanent basis. This access should only be used in an emergency when other transactions codes are not able to fix the issues on the system. This access should only be given on a short time limited basis following a formal approval process and all activities performed should be formally reviewed afterwards. 2. To ensure that the Debug activities are logged by the SAP application, we recommend that the following activities are performed to turn on the specific audit logging which will record all debug activities performed: - Navigate to SM19 and review the filters on the bottom half of the screen. Review to see which filters have 'Filters Active' box checked and at least one of these should have the value '*' in the user field. - For this filter, click the 'detailed display' option. Each of the following fields should be checked: . CUM - Jump to ABAP Debugger:&A . CUN - A manually caught process was stopped from within the Debugger(&A) .CUO - Explicit database commit or rollback from debugger	To mitigate the risk of any changes without a transport and directly in PRD, LBH SAP team will remove this profile and the have a process in place whereby SR consultant will have to request access by filling in a form.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Change Process Management	TRA noted that there was user "HCLADMIN" with access to Developers Key in live environment which allows direct changes in the live environment, that might change the functionality and configurations of the system which might result in the unauthorised changes that might lead to unauthorised modified financial data. Furthermore it was noted that there was a user who could develop and transport changes in the live environment. There is a potential risk that a developer/user will have an end to end access to the production environment and the user may deploy unauthorised changes in the live environment. This may impact the integrity of financial information or might lead to system downtime.	Management should ensure that there is proper segregation of access to the different environments.	TBC

INDEPENDENCE

Contents

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

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

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and single-entity financial statements. We report our opinion on the financial statements to officers of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report . We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report by exception any significant weaknesses identified by our work on the Council's value for money arrangements and a summary of associated recommendations made.

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

What we don't report

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

Contents

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	Ongoing issues within the audit sector has meant the audit has been challenging to deliver. We have provided further details on page 43.
3	Any fraud or suspected fraud issues.	Based on the work we have completed to date, we have no matters to bring to your attention.
4	Any suspected non-compliance with laws or regulations.	Based on the work we have completed to date, we have no matters to bring to your attention.
5	Significant matters in connection with related parties.	Based on the work we have completed to date, we have no matters to bring to your attention.
6	Limitations on the audit where information was restricted.	No exceptions to note.
7	Any issues with the quality of component auditors work.	Based on the work we have completed to date, we have no matters to bring to your attention.
8	Any fraud or suspected fraud at group or component level.	Based on the work we have completed to date, we have no matters to bring to your attention.

COMMUNICATION WITH YOU

Audit Sector developments

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

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

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

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

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

Audit progress

The 2021 audit has been challenging to deliver, with issues outlined above, in addition to the longer-term impacts of Covid-19 and remote working. There are several significant accounting estimates requiring management judgement, all of which require more detailed consideration in light of revised auditing standards and regulator focus, resulting in the need for more resource and specialist resource.

We will continue to work with officers towards the completion of this audit and we will update officers on progress on a regular basis.

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

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

In communicating with TCWG of the Council and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. 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 have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	November 2021	Corporate Committee
Audit Progress Report	February 2023	Corporate Committee
Audit Completion Report	(TBC)	Corporate Committee
Auditor's Annual Report	(TBC)	Corporate Committee

Contents

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

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

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

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

FOR MORE INFORMATION:

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e: David.Eagles@bdo.co.uk

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

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