



Report to the Standards and Audit Committee

# THURROCK COUNCIL

Audit Planning: year ending 31 March 2019

IDEAS | PEOPLE | TRUST



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# WELCOME

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We have pleasure in presenting our Audit Planning Report to the Standards and Audit Committee of Thurrock Council. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2019 in respect of our audit of the financial statements of the Council and consolidated entities (together the 'group') and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

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

We look forward to discussing this plan with you at the Standards and Audit Committee meeting on 14 March 2019 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.



Lisa Clampin  
15 February 2019



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This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. 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 Standards and Audit Committee in reviewing the planned audit strategy for the Council and Group for the year ending 31 March 2019.

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

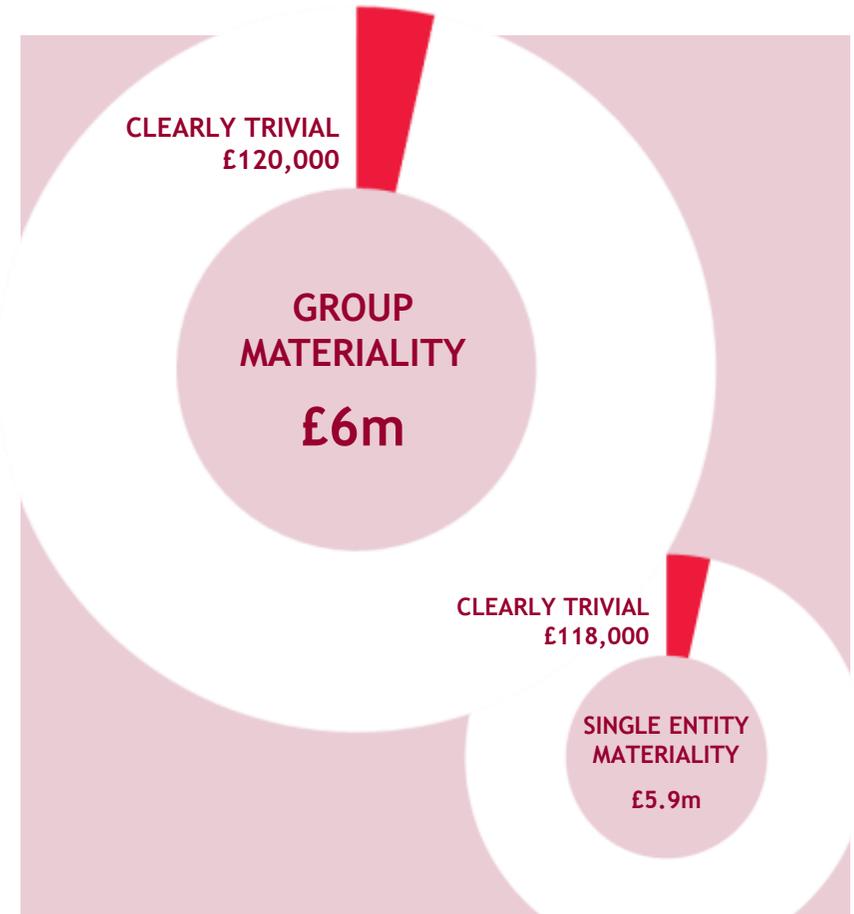
The scope of the audit is determined by the NAO's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the NAO.

### Materiality

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

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



# AUDIT STRATEGY

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Our Audit Strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. These areas of audit risk are those assessed as most likely to cause a material misstatement in the financial statements and will have the greatest impact on our audit strategy.

We have discussed the changes to the organisation, 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.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We will continue to update this assessment throughout the audit.

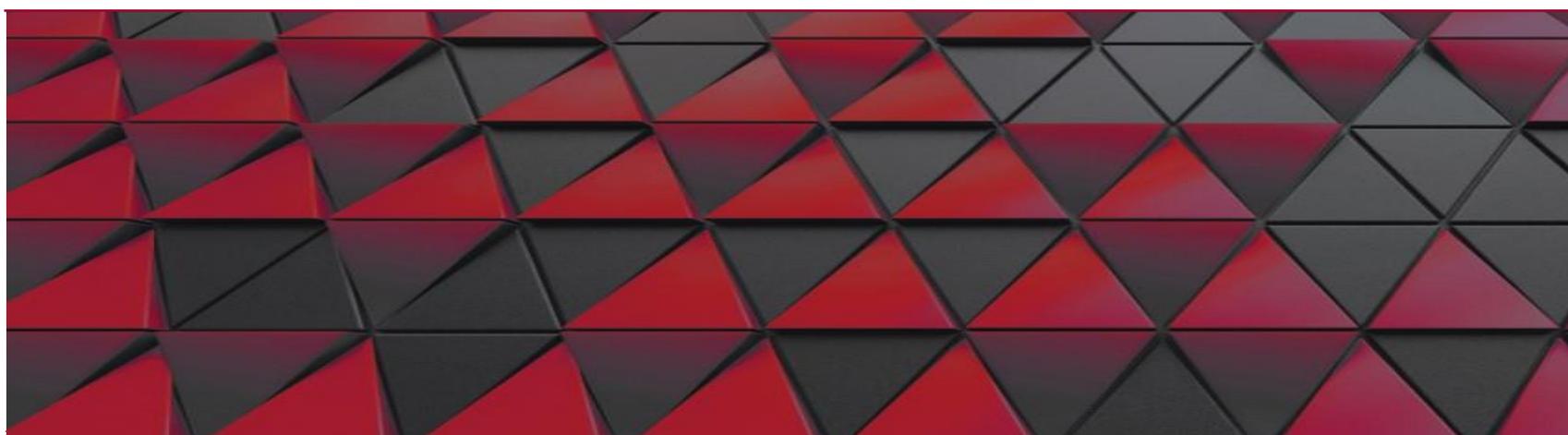
The table on the next page summarises our planned approach to audit risks identified.

# AUDIT RISK OVERVIEW

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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override	Significant	Yes	Substantive	Medium
Revenue (and expenditure) recognition	Significant	Yes	Substantive	Medium
Valuation of property, plant & equipment	Significant	No	Substantive	High
Allowance for non-collection of receivables	Normal	No	Substantive	Medium
Pension liability valuation	Significant	No	Substantive	High
Classification and measurement of financial instruments (IFRS 9)	Normal	No	Substantive	Medium
Revenue from contracts with customers (IFRS 15)	Normal	No	Substantive	Medium
Adequacy of disclosures	Normal	No	Substantive	Low
Sustainable resource deployment (use of resources)	Significant	No	Detailed review	Low



# INDEPENDENCE AND FEES

## Executive summary



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### Independence

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

### Fees

	2018/19
	£
Code audit fees	102,967
Additional fees - Group consolidation (estimate)	5,000
<b>Total audit fees</b>	<b>107,967</b>
<b>Non-audit fees</b>	
- Housing benefits subsidy certification	( <sup>1</sup> ) 12,650
- Teachers' Pension return certification	7,000
- Pooling Housing Capital Receipts return certification	3,500
<b>Total non-audit fees</b>	<b>23,150</b>
<b>Total fees</b>	<b>131,117</b>

(<sup>1</sup>) This fee is for the initial testing on the base sample of 20 cases per benefit type. Any additional testing required will be charged at £750 per set of "40+ testing" required

### 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 PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Standards and Audit Committee. A variation approval will be sought for the group consolidation fee once the work is complete.

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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 NAO.
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 2018/19 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Use of resources	We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
WGA	We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements.
Additional powers and duties	Where necessary we may be required to: issue 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.
Report to the Standards and Audit Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

# AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

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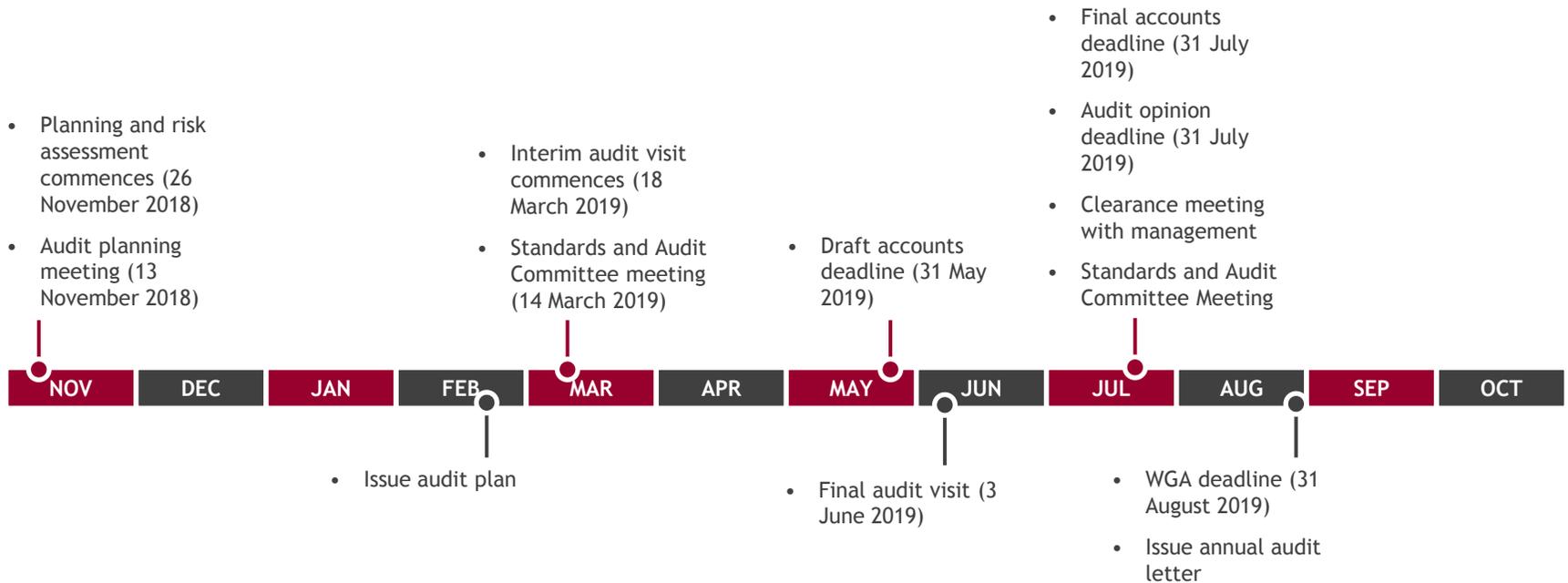
Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
Thurrock Council	Provides full range of local authority services	Significant	Size and risk	Risks 1 - 9	£5.9m	Statutory audit performed by BDO LLP
Thurrock Regeneration Ltd	Creation of new high-quality housing	Non significant component	Size	N/A	£2m	Statutory audit performed by Ernst and Young LLP
Gloriana Thurrock Homes Ltd	The rental and housing management of the developments by Thurrock Regeneration	Non significant component	Size	N/A	£2m	Statutory audit performed by Ernst and Young LLP

We have set materiality levels for each component by reference to the Group materiality and to address the risk of misstatements in each component impacting on the Group financial statements. Each component auditor will apply a materiality level for each component financial statements at a lower level than our Group component materiality.

# AUDIT TIMELINE

An overview of the key dates

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# BDO TEAM

## Team responsibilities



**Lisa Clampin**  
Partner  
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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinions are 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 NAO.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



**Simiso Ngidi**  
Manager  
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I will work closely with Lisa 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 Standards and Audit Committee are highlighted on a timely basis.



**Matthew Weller**  
Assistant Manager  
t: 01473 320804  
e: matthew.weller@bdo.co.uk

I will be the assistant lead on the audit of the Council.

I work closely with Simiso to execute the audit strategy. I will provide management support for audit.

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# OVERVIEW

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements 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.

Whilst there were no significant audit issues reported in the prior year in the areas identified below as presenting a significant audit risk, we consider there to be a significant risk of material misstatement as they are subject to a higher degree of management judgement and they inherently include a high level of estimation uncertainty.

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Description of risk	Significant audit risk	Normal audit risk	Overview of audit risk
1. Management override of controls			ISA (UK) 240 presumes that Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue (and expenditure) recognition			There is a risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).  There is also a risk in respect of the completeness of expenditure, which could be inappropriately deferred to the following year.
3. Valuation of property, plant & equipment (PPE)			There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Pension liability valuation			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
5. Allowance for non-collection of receivables			There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.  The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.
6. Classification and measurement of financial instruments (IFRS 9)			There is a risk that relevant financial assets and liabilities of the Council are not classified and measured in accordance with the new accounting standard.
7. Revenue from contracts with customers (IFRS 15)			There is a risk that relevant revenue streams of the Council are not recognised in the financial statements in accordance with the new standard.

# OVERVIEW

Description of risk	Significant risk	Normal risk	Overview of risk
8. Adequacy of disclosures			Our review of the 2017/18 accounts indicated that some disclosures may not meet the requirements of the Code.
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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# MANAGEMENT OVERRIDE OF CONTROLS

**ISA (UK) 240 presumes that Management is in a unique position to perpetrate fraud.**

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

## Risk detail

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:

- A review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics e.g. postings at weekends or round sum values to filter the population of journals. We will use our IT team to assist with the journal extraction;
- A 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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**Under auditing standards there is a presumption that income recognition presents a fraud risk.**

## Risk detail

We have rebutted this presumption in respect of much of the Council's income streams. However, because there is a high degree of management judgement and estimation attached to accounting for revenue and capital grants that are subject to performance conditions, we consider there to be a significant risk of material misstatement occurring in respect of the existence (recognition in the Comprehensive Income and Expenditure Statement) of that income.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

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	

## Planned audit approach

Our audit procedures will include the following:

- Test an increased sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met; and
- Test an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

# VALUATION OF PROPERTY, PLANT & EQUIPMENT

**There is a risk over the valuation of land, buildings and dwellings where valuations are based on significant assumptions.**

## 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 or fair value (as applicable) at the balance sheet date.

PPE values are subject to valuation changes and material judgemental inputs and estimation techniques. The Code requires management to conduct a full valuation of its land and building on a periodic basis (at least every five years). In the intervening years management is required to assess whether there has been a material change in the value of its assets that should be accounted for.

There were no significant matters reported in the prior year in respect of valuation of land and buildings. However, due to the significant value of the Council's land, buildings and dwellings and the high degree of estimation uncertainty associated with valuation, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

## Planned audit approach

Our audit procedures will include the following:

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

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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**There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.**

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

## Risk detail

The net pension liability comprises the Council and Group’s share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

Whilst no significant issues were reported in the prior year with regards to the appropriateness of the assumptions used, there is an inherent audit risk due the high level of estimation uncertainty relevant to the valuation of the liability. For example, the valuation may not be based on appropriate membership data where there are significant changes or could rely on inappropriate assumptions to value the liability.

## Planned audit approach

Our audit procedures will include the following:

- Agree the disclosures to the information provided by the pension fund actuary;
- Review the competence of the management expert (actuary);
- Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Review the controls in place for providing accurate membership data to the actuary;
- Contact the pension fund auditor and request confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Check that any significant changes in membership data have been communicated to the actuary.

# ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES

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

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

## Risk detail

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. The Council assesses each type of receivable separately in determining how much to allow for non-collection.

There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

## Planned audit approach

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

# CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (IFRS 9)

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**There is a risk that financial instruments are not classified and measured in accordance with IFRS9.**

- Significant risk
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- 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

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.

The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. This will need to include both the Council and component entities in the Group financial statements. There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.

## Planned audit approach

Our audit procedures will include the following:

- Review the work performed by the Council, once undertaken, to assess the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group; and
- Review the disclosures required relating to the adoption of the new accounting standard.

# REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

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**There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.**

- 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

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised.

CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue.

The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. This will need to include both the Council and component entities in the Group financial statements. There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard.

## Planned audit approach

Our audit procedures will include the following:

- Review the work performed by the Council, once undertaken, to assess the impact of the new '5-step model' on revenue streams on both the Council and the component bodies in the Group; and
- Review the disclosures required relating to the adoption of the new accounting standard.

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**There is a risk on inaccurate and incomplete disclosures as a result of errors found in review of prior year accounts**

- 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

Our review of the 2017/18 accounts indicated that some disclosures may not meet the requirements of the Code.

Potential errors identified include disclosures in respect of long term debtors, financial instruments, cash flow statement and related parties.

## Planned audit approach

Our audit procedures will include the following:

- Engaging with management on the potential issues identified to gain an understanding of the intended disclosures for 2018/19; and
- Review the presentation and disclosure in the financial statements against the Code disclosure checklist.

# SUSTAINABLE RESOURCE DEPLOYMENT (USE OF RESOURCES)

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

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

## Risk detail

The Medium Term Financial Strategy (MTFS) covering the period from 2019/20 to 2023/24 forecasts further revenue reductions in Government funding from grants and that will continue into the future. The MTFS also acknowledges pressures from inflation, increasing pay awards and other demographic and economical pressures.

The Council has set a balanced budget (surplus) for 2019/20 up to 2022/23 with a deficit budget for 2023/24. The Council's net pressures, before investments and savings, are £24m over the 5 years of the current MTFS. Delivery of the Council's commercial investment strategy is key to the achievement of the MTFS.

The Council has reported net pressures of £0.4m for 2018/19 as at the end of December 2018. The current MTFS has identified savings of £2.2m for 2019/20 to produce a balanced budget.

The financial and commercial management challenges faced by the Council are notable, in particular the dependence upon delivery of material commercial investment income in 2018/19 and 2019/20. As a result we conclude that there is a significant risk in respect of sustainable resource deployment.

## Planned audit approach

Our audit procedures will include the following:

- Review the assumptions used in the MTFS and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Review the monitoring of the delivery of the budgeted savings;
- Review the investment plans and the adequacy of those plans; and
- Sample a number of savings scheme and plans for detailed review.

# OTHER MATTERS REQUIRING FURTHER DISCUSSION

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## Fraud

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

We have not been made aware of any actual alleged or suspected incidences of fraud. We request confirmation from the Audit Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

## Predecessor auditors

We have reviewed the work performed by the predecessor auditor. We will perform additional audit procedures on some of the comparatives where we have concluded that sufficient reliance can not be placed on the predecessor auditor's work.

## Significant estimates

We will report to you on significant estimates. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historic 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 understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

## Laws and regulations

We will consider compliance with Laws and regulations. The most significant of these for your business includes VAT legislation and Employment Taxes. We will make enquiries of Management and review correspondence with the relevant authorities. Specialist teams within BDO will review VAT and employment tax compliance.

## 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 CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

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# OTHER MATTERS REQUIRING FURTHER DISCUSSION

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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 or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of Management and the Standards and Audit Committee.

## Financial statement disclosures

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

## Any other matters

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

# IT GENERAL CONTROLS

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

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

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

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

- Oracle
- Northgate
- Logotech and
- Controcc.

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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 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 ending 31 March 2019.

Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

We have not identified any 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 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.

**Non-audit services**

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the summary of fees table.

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

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**Fees summary for year ending 31 March 2019**

	£	£
<b>Code fees</b>	102,967	
<b>Additional fees - Group consolidation (estimate)</b>	5,000	
<b>Total audit fees</b>		<b>107,967</b>
<b>Non-audit fees</b>		
- Housing Benefit Subsidy certification	(1) 12,650	
- Teachers' Pension return certification	7,000	
- Pooling Housing Capital Receipts return certification	3,500	
<b>Total non-audit services</b>		<b>23,150</b>
<b>Total fees</b>		<b>131,117</b>

(1) This fee is for the initial testing on the base sample of 20 cases per benefit type. Any additional testing required will be charged at £750 per set of "40+ testing" required



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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 2018/19, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

### Use of resources

Councils are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.

In preparing its governance statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

# OUR RESPONSIBILITIES

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### Our responsibilities and reporting - financial statements

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidated and the Council's 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 NAO and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

### What we don't report

Our audit is not designed to identify all matters that may be relevant to the Council and Standards and Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



# COMMUNICATION WITH YOU

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## Those Charged with Governance

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

In communicating with the Standards and Audit Committee, representing TCWG of the parent and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

## Communication, Meetings and Feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with Management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

## Planning Report

The 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.

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These tables indicate the latest rotation periods normally permitted under the independence rules for the terms of appointment by PSAA.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below 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 before
Lisa Clampin Partner	1	5 years
Simiso Ngidi Manager	1	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
- Compliance with loan covenants
- Instances when greater precision is required (e.g. senior managers' 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 transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the 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.

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

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

### Unadjusted errors

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

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

We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with loan covenants, management compensation agreements, other 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.

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**BDO's audit quality cornerstones underpin the firm's definition of audit quality.**

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing 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 regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of 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 entities.

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



FOR MORE INFORMATION:

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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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