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## WELCOME

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We have pleasure in presenting our Audit Planning Report to the Audit and Risk Management Committee of the City of London Corporation (the 'Corporation'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2021 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these; together with timetable and the BDO team.

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

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

We look forward to discussing this plan with you at the Audit and Risk Management Committee meeting on 23 March 2021 and to receiving your input on the scope and approach.

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

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

14 March 2021



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

## **SCOPE AND MATERIALITY**

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This summary provides an overview of the key audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the planned audit strategy for the Corporation for the year ending 31 March 2021.

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

### Audit scope

The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties. The Code of Audit Practice was updated with effect from 1 April 2020 and as a consequence the scope of the use of resources work has changed for the year ending 31 March 2021. More information on this change is included on page 20.

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

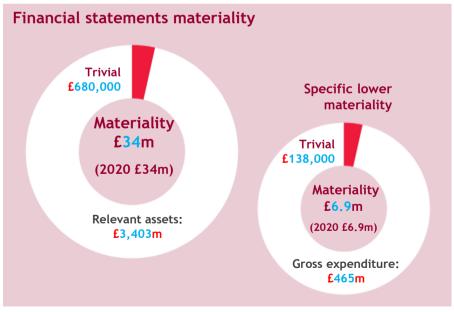
### Materiality

We have applied a benchmark total comprising the combined value of long term assets and managed investments as a suitable value for materiality. Materiality has been set at 1% of this Balance Sheet amount.

We consider that a misstatement at a lower level through revenue expenditure would be material where this may impact on setting future council tax or HRA rent levels. Revenue reserves and resources available to the City Fund at 31 March 2020 was £177.1m, comprising the General Fund balance £62.3m, Housing Revenue Account balance £0.1m and earmarked reserves £114.7m. We will therefore apply a lower specific level of materiality at 1.5% of gross expenditure to income and expenditure transactions in the Comprehensive Income and Expenditure statement (CIES) and Movement in reserves statement (MiRS) that impact on revenue resources to reduce the risk of material misstatements.

The clearly trivial amount is based on 2% of the materiality level.

Figures quoted are based on prior year outturn pending provision of current end of year projections.



## **AUDIT STRATEGY**

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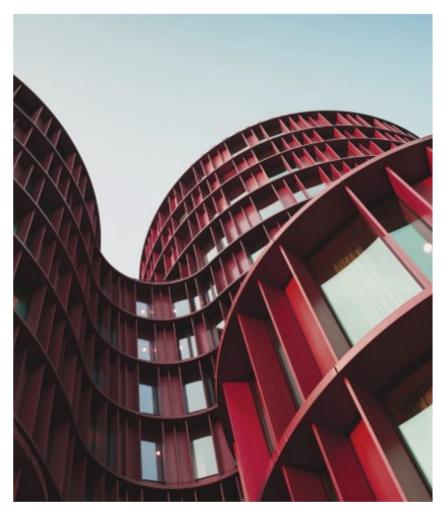
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Our audit strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not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

We have discussed the changes to the Corporation, 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 Council's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources. We will continue to update this assessment throughout the audit.

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

There has been no significant change to audit risks identified or their classification as compared to the prior year.

## **AUDIT RISKS OVERVIEW**

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		Fraud risk		Impact of significant judgements
Risk identified	Risk rating	present	Testing approach	and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Revenue recognition	Significant	Yes	Substantive	Medium
Expenditure cut-off	Significant	Yes	Substantive	Low
Valuation of non-current assets	Significant	Yes	Substantive	High
Valuation of pension liability	Significant	No	Substantive	High
Valuation of Non-Domestic Rates appeals provision	Significant	No	Substantive	Medium
Allowance for non-collection of receivables and debt	Significant	No	Substantive	Medium
Related party transactions	Normal	No	Substantive	Low
Use of Resources - TBC pending final guidance	Significant	N/A	Substantive	TBC



### INDEPENDENCE AND FEES

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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

### Fees

	2020/21 Planned	2019/20 Outturn
Code audit fee	¹£111,000	£108,000
Additional audit fee: overruns	-	<sup>2</sup> £TBC
Additional audit fee: new Use of Resources	<sup>3</sup> £TBC	-
Additional audit fee: Covid related costs	<sup>4</sup> £16,650	£TBC
Total audit fees	£TBC	£TBC
Fees for non-audit services - audit related:		
Certification of housing benefits subsidy claim	£20,000	£TBC - not complete
<ul> <li>Certification of pooled housing capital receipts return</li> </ul>	£2,500	£TBC - not complete
Certification of teachers' pensions return	£2,500	£TBC - not complete
Other non-audit services		
• ICF China Green Finance Programme reasonable assurance report	£TBC	£7,000
Total non-audit services fees	£TBC	£TBC
Total fees	£TBC	£TBC

### Fee variances

### <sup>1</sup>Code fee

This reflects the risk assessment and increased estimates work linked to the revised Auditing Standard.

### <sup>2</sup>2019/20 overruns

These are being discussed with Management. Any recurrent impact will need to be factored into the 2020/21 fee.

### <sup>3</sup>Covid related costs

This represents an estimate of the additional resource time and costs necessary when audits are undertaken remotely. The 15% is at the lowest end of the 15-20% range experienced by BDO and the other audit firms. If we are able to undertake some key work on site, the time reflected here should reduce and the fee level decrease accordingly.

### <sup>1</sup>Use of resources fee variance

The audit fee is based on audit scope under the Code of Audit Practice. A new Code is effective for periods commencing 1 April 2020, which significantly increases the work of auditors for reporting on a body's use of resources. We will propose a fee variation in respect of this once additional procedures have been fully scoped.

### 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 Officers and then discuss this with the Audit and Risk Management Committee.

## AUDIT SCOPE ANI OBJECTIVES

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

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

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

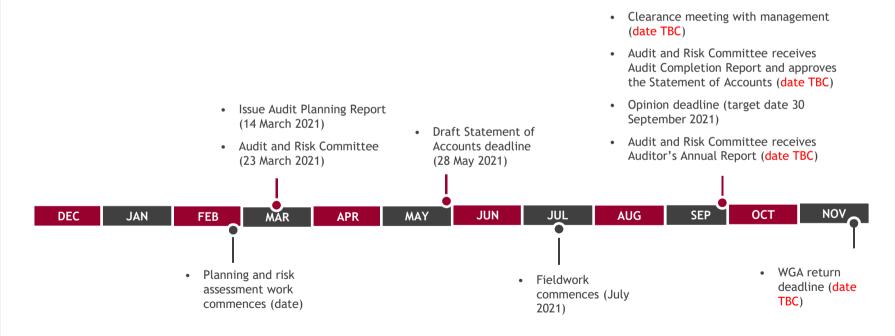
Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the City Fund's financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
WGA	We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements.
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Corporation; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Audit Completion Report to the Audit and Risk Management Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit and Risk Management Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.
Use of resources and Auditor's Annual Report	We will provide an annual commentary on the Corporation's arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Corporation. The Auditor's Annual Report is required to be published by the Corporation. At the time of drafting this Audit Planning Report the timetable for publication is not yet confirmed (amend as necessary).

## **AUDIT TIMELINE**

## An overview of the key dates

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At the time of drafting this Audit Planning Report, the deadlines for preparing and publishing local authority accounts are subject to consultation, as part of the Government's response to Sir Tony Redmond's review. The consultation proposes pushing back the final accounts publication date to 30 September 2021 and requiring draft accounts to be published on or before 1 August 2021, together with a new requirement for local bodies to provide an explanation on their website if they miss the revised draft publication date.



The timetable above includes dates which have been proposed by Management. We are currently unable to confirm our commitment to this timetable as we require visibility of the overall timetable for all of the separate entities being audited and how these interact with each other. Since our ability to complete the audit of any individual entity is subject to the satisfactory completion of a number of areas of cross working (including, but not limited to, IT audit, payroll, financial investments, cross charges and pensions), our ability to meet this timetable can only be agreed in conjunction with the timetables for all other Funds.

# **BDO TEAM**Team responsibilities

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David Eagles
Partner

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Kerry Barnes Senior Manager

t: 020 7893 3837 e: kerry.l.barnes@bdo.co.uk As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given.

In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I will ensure that we have undertaken sufficient work to assess the Corporation's arrangements for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the National Audit Office.

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

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



Kerry Lin Assistant Manager

t: 020 3219 4073 e: kerry.lin@bdo.co.uk I will be responsible for the day to day supervision of the audit team, and will be responsible for the delivery of the key audit work.

### AUDIT RISKS

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## **OVERVIEW**

### Audit risks

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

**Key: Significant / Normal** 

Description of risk	Significant risk	Normal risk	Overview of risk
Management override of controls			Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.
2. Revenue recognition			Auditing standards presume that income recognition presents a fraud risk.
3. Expenditure cut-off			For public sector bodies the risk of fraud related to expenditure is also relevant.
4. Valuation of non-current assets			The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.
5. Valuation of pension liability			The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.
6. Non-Domestic Rates appeals provision			There is a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.
7. Allowances for non-collection of receivables and debt			Estimating potential losses is a significant risk as it involves a high degree of estimation uncertainty.
8. Related party transactions			There is a risk that related party disclosures are not complete or accurate.
9. Use of Resources			The risk assessment and proposed response will be completed and discussed when the guidance has been finalised.

## MANAGEMENT OVERRIDE OF CONTROLS

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

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Corporation

### Risk detail

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

### Planned audit approach

- Consideration of estimates and judgements applied in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Review and checking of high value and unusual journal entries made in the year and agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- · Consideration of unadjusted audit differences for indications of bias or deliberate misstatement; and
- Consideration of areas where management bias could impact remuneration through performance based payment schemes.

### **REVENUE RECOGNITION**

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Auditing standards presume that income recognition presents a fraud risk.

### 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 Corporation

### Risk detail

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

For the City Fund, we consider there to be a significant 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 around the existence of fees and charges and investment property rental income.

### Planned audit approach

- Test a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met;
- Test a sample of fees and charges to ensure that income has been recorded in the correct period and that all income that should have been recorded has been;
- Test a sample of grants and donations to ensure completeness, accuracy, existence and classification (as restricted or unrestricted) in the financial statements;
- Test a sample of investment income and confirm to third party investment manager reports; and
- Test a sample of property rental income and agree to lease agreements and recalculations
  performed to determine whether the amounts are accurate and recorded in the correct period.

## **EXPENDITURE CUT-OFF**

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

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 Corporation

### Risk detail

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Corporation, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

### Planned audit approach

Our audit procedures will include the following:

Test a 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 NON-CURRENT ASSETS**

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

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 Corporation

#### Risk detail

Land, buildings and dwellings are reported at fair value / carrying value. Operational assets are valued at current value and surplus assets / assets held for sale at fair value at the balance sheet date. For Investment properties are reported at fair value at the balance sheet date.

The Corporation applies an annual revaluation process for investment properties and higher value operational assets to provide assurance that carrying values are not materially misstated; with the remainder of the non material value assets being revalued every 5 years. The Corporation has appointed four different valuers for investment property and other operational land and buildings. Internal valuers also carry out some valuations at year end.

In the prior year RICS issued guidance to valuers regarding material uncertainties over valuations of land and buildings due to prevailing market conditions as a result of the coronavirus pandemic. The Corporation's valuers responsible for valuing land and building included material uncertainties over their valuations in their updated valuation reports as at 31 March 2020. RICS latest guidance suggests that there is unlikely to be material uncertainties over valuations as at 31 March 2021 however this will need to be monitored by the Corporation's valuers as circumstances could change.

Due to the significant value of the land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, 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

- Assess the qualifications and competence of the valuers used;
- Review the instructions provided to the valuers and review the values' 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 land plot / building sizes;
- Review assumptions used by the valuers and movements against relevant indices for similar classes
  of assets and follow up valuation movements that appear unusual particularly in the light of
  material uncertainties that existed as at 31 March 2020;
- Review the adequacy of disclosures if material valuation uncertainties are reported at the year end: and
- Discuss with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties.

### VALUATION OF PENSION LIABILITY

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

### Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Corporation

### Risk detail

The LGPS pension fund is required to report the pension liability for estimated promised future benefits for the whole fund. The Corporation's share of the net liability, including its share of the assets held in the pension fund, is allocated across the funds in proportion to the payroll cost for each fund. The City Fund also reports the pension liability for the City Police pension scheme. This is an unfunded scheme.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise for the LGPS and the 2017 quadrennial valuation for the police pension, updated at 31 March 2021 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

### Planned audit approach

- Assess the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Review the reasonableness of the assumptions used by Barnett Waddingham (management's expert) for the
  calculation of the liability against other local government and police pension actuaries' assumptions and other
  observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary
  (auditor's expert);
- Review the controls for providing accurate membership data to the actuary;
- Check whether any significant changes in membership data have been communicated to the actuary;
- Discuss with the actuary the continuing impact of GMP equalisation and the McCloud judgement regarding age discrimination on the pension fund liability and impact on employer fund; and
- Check the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contribution's paid to the scheme.

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There is a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.

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 Corporation

### Risk detail

City Fund as a billing authority is required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.

Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end.

There is a low number of appeals and settlements from the 2017 VOA list following the introduction of the Check - Challenge - Appeal process that means there is limited data on which to base the estimate for the provision. This increases the level of risk as the provision could be overstated based on the assumptions used for the 2017 VOA list provided by MHCLG.

### Planned audit approach

- Review of the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled
  appeals are removed; and
- Review of the assumptions used in the preparation of the estimate including the historic success rates to confirm
  that the rates applied are appropriate to outstanding 2010 appeals and the estimate of expected losses for the
  2017 rating list.

## ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

There is a risk over the valuation of the impairment 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 City Fund recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing and commercial rents and parking charges. Management 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.

There is an increased risk of customer default over collection of receivables where the losses are measured at either the Incurred Credit Loss model for statutory debt (eg council tax and NDR) or Expected Credit Loss (contract receivables). For some receivables, the Corporation may have suspended recovery action or offered deferred payment terms, and some customers that may be taking advantage of these arrangements may be in financial difficulty.

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.

### Planned audit approach

- Reviewing the provision model for significant income streams and receivables / debt 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;
- Reviewing business plans to support recoverability of amounts due as receivables or loans from subsidiaries and other group entities; and
- Following up prior recommendations to ensure that where impairment allowance percentages had been rolled forward for a number of years, these allowances have now been calculated using historical collection rates or similar types of evidence.

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

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Risk highlighted by Council

### Risk detail

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

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

### Planned audit approach

- · Reviewing management processes and controls to identify and disclose related party transactions;
- · Review bank and legal confirmations and minutes of Corporation meetings;
- Reviewing other relevant information concerning any such identified transactions;
- Discussing with management and reviewing members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed;
- Undertaking Companies House searches for potential undisclosed interests;
- Following up prior year significant control deficiency recommendations to ensure that related party transactions
  recorded in the financial statements meet the definition of IAS 24: Related Party and over disclosure noted in the
  prior year has been rectified. As well as ensuring that our recommendation in respect of appropriate completion
  of member annual declarations has been implemented; and
- Following up a prior year recommendation to ensure that management has reviewed the relationship between the Museum and City of London Corporation to determine if joint control exists and hence the appropriateness of disclosure under related party transactions.

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### New Code of Audit Practice ("Code")

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

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

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

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

### **Risk of Significant Weakness**

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

We are working through the implications of the new Code, including our risk assessment and a work programme that addresses risks of significant weakness identified.

We will update the Audit and Risk Management Committee on risks of significant weakness and planned work when it meets on [date] and, subject to risks being identified, will issue an updated version of this report.

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

### Directors' responsibilities

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

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

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

### **Audit responsibilities**

Our responsibilities in respect of going concern are:

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

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

- a) The Corporation's method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other
- The Corporation's plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances
- c) The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

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### Fraud

Whilst Management of the Corporation 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 been made aware of a small number of low value actual, alleged or suspected incidences of fraud reported by the Corporation. We request confirmation from the Audit and Risk Management Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management believe that there is low risk of material misstatement arising from fraud and that controls in operation would prevent or detect material fraud.

### **Accounting policies**

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2020/21 under the circumstances.

### Significant accounting estimates and judgements

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

### Internal audit

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

We will review the reports issued by the Council's internal audit function although we do not plan place reliance on their work in respect of their assessment of control processes for our audit of the financial statements.

Our considerations in respect of Use of Resources are ongoing.

### Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your organisation includes VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities. Specialist teams within BDO will review VAT and employment tax compliance work undertaken by the audit team.

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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.

### Financial statement disclosures

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

### Contingencies

We request input from the Audit and Risk Management Committee on recent claims.

### Any other matters

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



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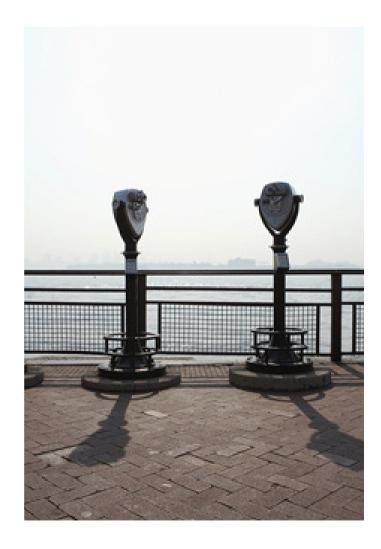
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

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

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

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

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



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

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

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

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

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

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

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

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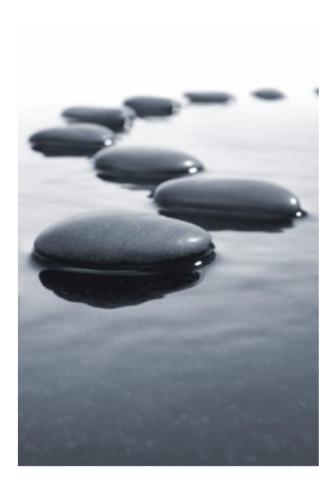
IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations; 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
- Paris
- iTrent
- Capita



### ETHICAL STANDARD

## FRC ETHICAL STANDARD (DECEMBER 2019)

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In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitionary provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines as applicable to our audit of the Council.

Key headlines	Impact				
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.				
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.				
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.				
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.				

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

We have embedded the requirements of the auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement.

This document considers such matters in the context of our audit for the year ending 31 March 2021.

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

We also confirm that we have obtained confirmation that external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Corporation.

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

### Non-audit services

Details of services, other than audit, provided by us to the Corporation during the period and up to the date of this report are set out in the fees table on page 7.

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



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## CORPORATION'S RESPONSIBILITIES

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### Financial reporting

The Corporation 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 Corporation accounts for its stewardship and use of the public money at its disposal.

The form and content of the Corporation'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 Corporation is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2020/21, applicable accounting standards or other direction under the circumstances.

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

### Use of resources

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

As part of the material published with its financial statements, the Corporation 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 Corporation will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

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### Our responsibilities and reporting - financial reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Corporation.

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 Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the National Audit Office and undertake sufficient work to be able to satisfy ourselves as to whether the Corporation has put arrangements in place that support the achievement of value for money and to provide an annual commentary on arrangements in the Auditor's Annual Report.

### What we don't report

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



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### Those charged with governance

References in this report to 'those charged with governance' are to the Corporation as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

### Communication, meetings and feedback

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

### **Audit Planning Report**

The Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

### Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

### **Audit Completion Report**

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the report.

### Auditor's Annual Report

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

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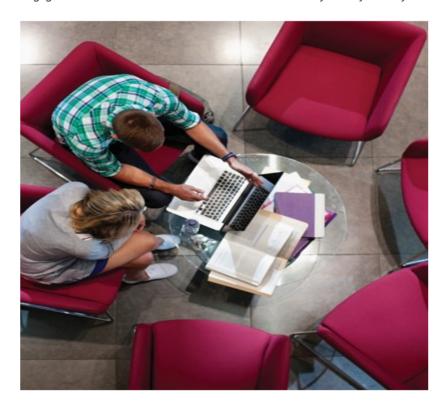
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These tables indicates the latest rotation periods normally permitted under the independence rules of the FRC's Ethical Standard.

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



### Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
David Eagles, Partner Engagement lead	1	10 years
<b>Kerry Barnes</b> Senior Manager	4	10 years

### Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	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
- Instances when greater precision is required (e.g. disclosure of senior officers' remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the entity, 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 financial statements.

### Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

### Definition of materiality under IFRS

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

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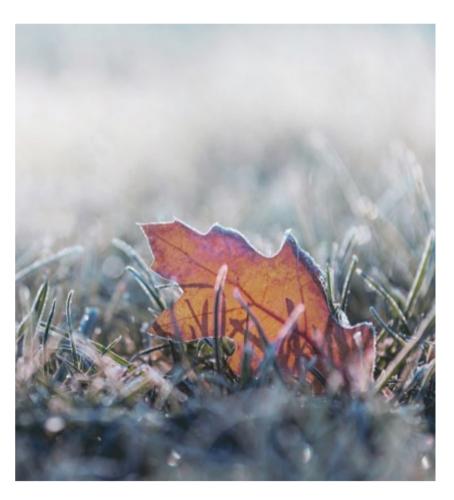
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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

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 and Risk Management Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

## ACCOUNTING STANDARDS

# NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

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

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

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AQR Results

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### Overview

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

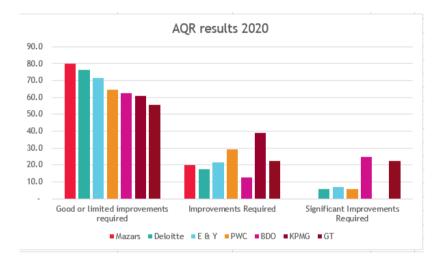
### Firm's Results

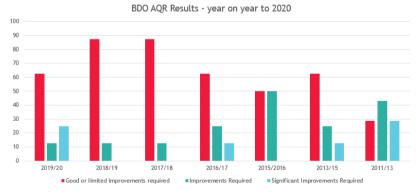
The graphs demonstrates our performance in relation to the other 6 largest firms. Having topped the table for audit quality for the last two consecutive years, we are disappointed to see a decline in our results. These scores remind us we must remain committed to continuous improvements and, having carefully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

We would encourage you to read our report which includes:

- Details of the root cause analysis we have been undertaking to address issues raised
- The actions we have/are undertaking to address the issues raised by the AQR
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

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





## **AQR RESULTS 2019/20 2**

### **BDO Performance**

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Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Accounting Standards

AQR Results

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Live files require:

Review of audit quality by senior team members

### and may require:

- Hot review of financial statements
- Technical support for audit work
- Appointment of engagement quality control reviewer

Completed files may be subject to:

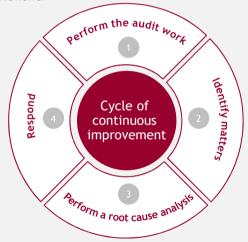
- Internal Audit Quality Assurance
  Review
  - External review from AQR or QAD

Considerations of how to address:

- Behavioural matters
- Operational changes required
- Cultural matters to be escalated

### Responses may include:

- Updating operational practices
- Embedding matter into performance review and development process for staff
- Staff coaching
- Amending audit approach firm-wide or for specific assignments
- Targeted messaging to relevant audiences (e.g. grades, ranks or sector specialists)
- Updated guidance material Responses inform training plans



Nature of matters may be:

- Client/assignment specific issues
- Common findings/repeating issues that have need to be tracked and/or escalated
- Firm-wide matters
- "Best practice" examples

May be at Individual assignment or 'whole-firm' level:

- Identification and assessment of root cause
- Productive process to learn from matters and improve quality
- "Best practice" examples treated in the same way as "issues"
- Consideration of appropriate responses to issues identified, proposed and escalated as appropriate

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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