



Report to the Audit and Risk Management Committee

CITY OF LONDON PENSION FUND

Audit Planning Report: year ending 31 March 2021

IDEAS | PEOPLE | TRUST



CONTENTS

1	Introduction	3
	Welcome	3
2	Executive summary	4
	Scope and materiality	4
	Audit strategy	5
	Audit risks overview	6
	Independence and fees	7
3	Audit scope and objectives	8
	Overview	8
	Audit scope entities, components and audit risks	9
	Audit scope entities, components and audit risks 2	10
	Audit timeline	11
	BDO team	12
4	Audit risks	13
	Overview	13
	Management override of controls	14
	Revenue recognition	15
	Expenditure cut-off	16
	Valuation of non-current assets	17
	Valuation of pension liability	18

	Waste Treatment Plant PFI	19
	Use of Resources	20
	Going concern	21
	Other matters requiring further discussion	22
	Other matters requiring further discussion 2	23
	Irregularities (including fraud)	24
	Accounting estimates	25
	IT general controls	26
5	Ethical Standard	27
	FRC Ethical Standard (December 2019)	27
6	Independence	28
	Independence	28
7	Appendices contents	29

WELCOME

CONTENTS

Introduction

Welcome

Executive summary

Audit scope and objectives

Audit risks

Ethical Standard

Independence

Appendices contents

We have pleasure in presenting our Audit Planning Report to the Audit and Risk Management Committee of the City of London Corporation (the 'Corporation') in respect of the City of London Pension Fund. 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; 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 Corporation, as administering authority, as a whole. We expect that the Audit and Risk Management Committee will refer such matters to the City 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



David Eagles, Engagement Partner

t: 01473 320728
m: 07967 203431
e: david.eagles@bdo.co.uk



Francesca Palmer, Manager

t: 01473 320739
m: 07970 126254
e: francesca.palmer@bdo.co.uk



Kerry Lin, Assistant Manager

t: 020 3219 4073
e: kerry.lin@bdo.co.uk

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

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Audit scope and objectives

Audit risks

Ethical Standard

Independence

Appendices contents

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 Pension Fund 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 and, where appropriate, exercising the auditor's wider reporting powers and duties.

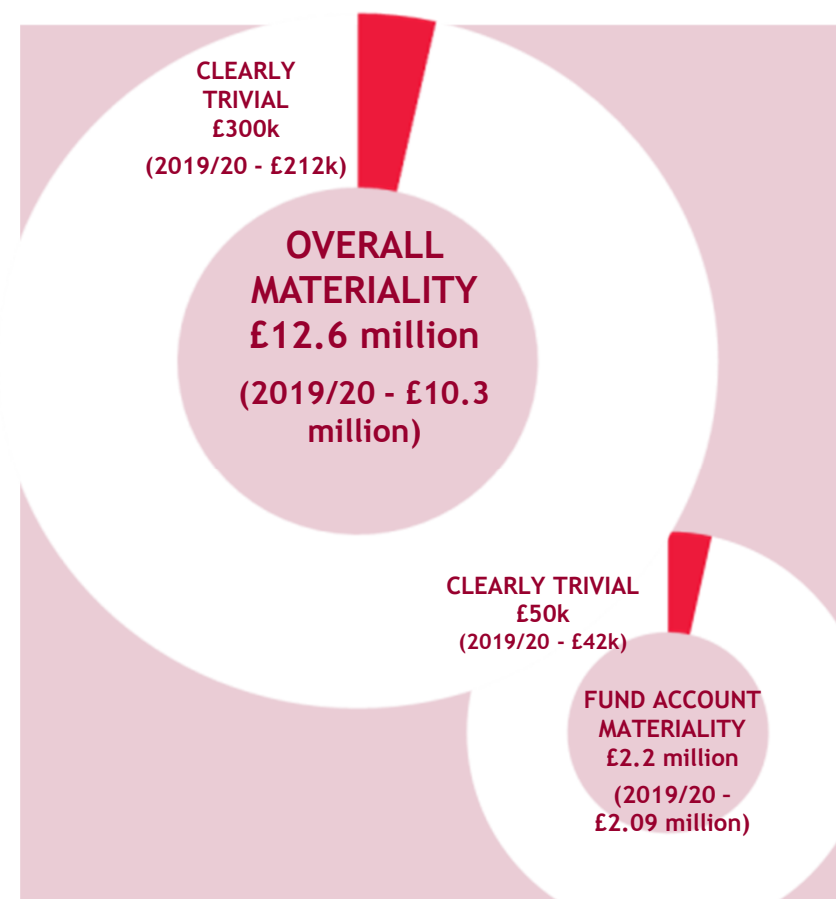
Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

Materiality

Planning materiality for the Pension Fund financial statements will again be set at 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the Fund Account at 5% of contributions.

At this stage, these figures are based on the current estimated net assets and expenditure. This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Audit and Risk Management Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



AUDIT STRATEGY

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Audit scope and objectives

Audit risks

Ethical Standard

Independence

Appendices contents



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 Pension Fund, 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 Pension Fund's activities and to determine which risks impact on the numbers and disclosures in the financial statements. 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. All material areas will be subject to a substantive approach.

AUDIT RISKS OVERVIEW

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Audit scope and objectives

Audit risks

Ethical Standard

Independence

Appendices contents

Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Valuation of investments (unquoted and direct property investments)	Significant	No	Substantive	High
Pension liability valuation	Significant	No	Substantive	High
Valuation of investments (pooled investments)	Normal	No	Substantive	Medium
Contributions receivable	Normal	No	Substantive	Medium



INDEPENDENCE AND FEES

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Audit scope and objectives

Audit risks

Ethical Standard

Independence

Appendices contents

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	2019/20
Code audit fee	£22,000	£22,000
¹ Covid-related costs	£3,300	-
PY overruns/triennial review work	-	TBC
Total audit fees	£25,300	£TBC

Fee variances

¹Covid-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.

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 City Corporation. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Risk Management Committee.



OVERVIEW

Audit scope and objectives

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Overview
Audit scope entities, components and audit risks
Audit scope entities, components and audit risks 2
Audit timeline
BDO team
Audit risks
Ethical Standard
Independence
Appendices contents

Key components of our audit objectives and strategy for the Pension Fund 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.

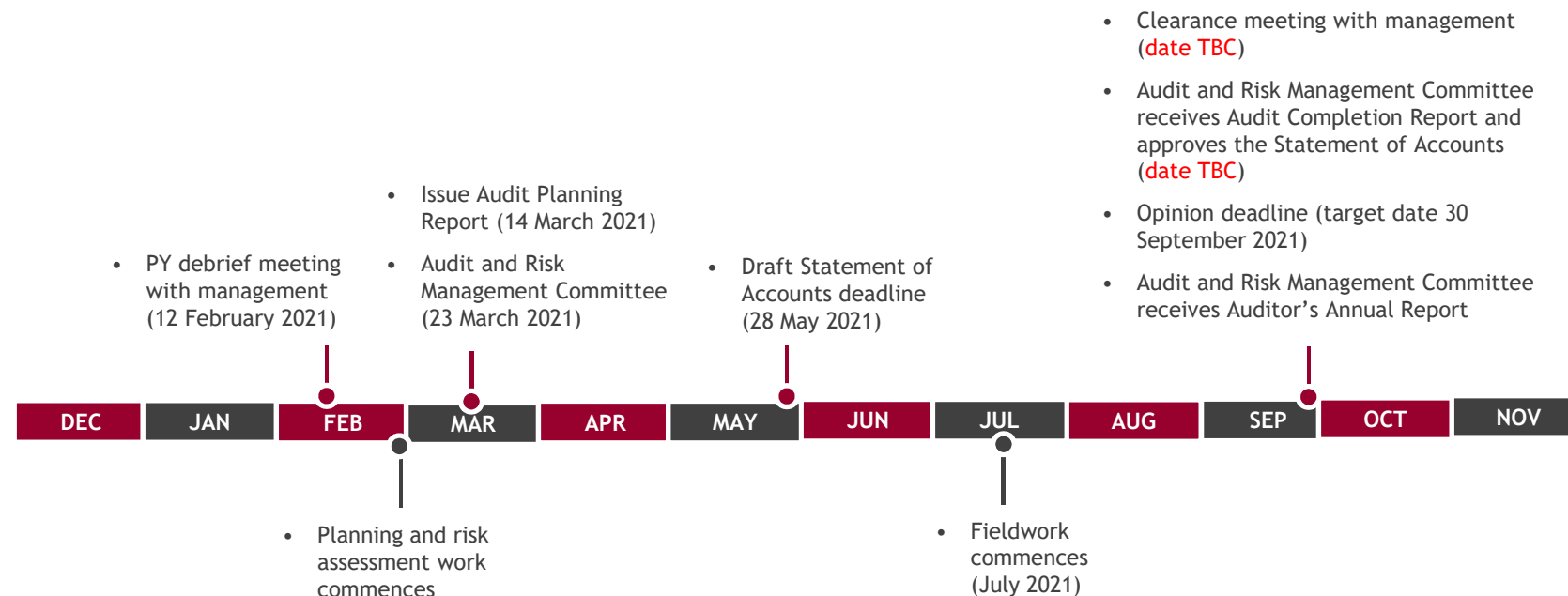
We will communicate any significant changes to our audit strategy, should the need for such change arise.

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 Pension Fund 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.
Annual Report	We will review the Pension Fund Annual Report and report on the consistency of the Pension Fund financial statements within the Annual Report with the Pension Fund financial statements in the Statement of Accounts.
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.

AUDIT TIMELINE

An overview of the key dates

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

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Overview
Audit scope entities, components and audit risks
Audit scope entities, components and audit risks 2
Audit timeline
BDO team
Audit risks
Ethical Standard
Independence
Appendices contents



David Eagles
Engagement Lead

t: 01473 320 728
m: 07967 203431
e: david.eagles@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 am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



Francesca Palmer, Manager

t: 01473 320739
m: 07970 126254
e: francesca.palmer@bdo.co.uk

I will lead on the audit of the Pension Fund. 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.

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**

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets
Valuation of pension liability
Waste Treatment Plant PFI
Use of Resources
Going concern
Other matters requiring further discussion
Other matters requiring further discussion 2
Irregularities (including fraud)
Accounting estimates
IT general controls
Ethical Standard
Independence
Appendices contents

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			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.
2. Valuation of investments (Private equity, infrastructure and property funds)			There is a risk that unquoted and direct property investments are not appropriately valued in the financial statements due to significant level of assumption and estimation involved in the valuation of these assets.
3. 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.
4. Valuation of investments (Pooled investment vehicles and other investments)			There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.
5. Contributions receivable			There is a risk that employers may not be calculating contributions correctly and paying over the full amount dues (on normal and deficit rates).

MANAGEMENT OVERRIDE OF CONTROLS

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets
Valuation of pension liability
Waste Treatment Plant PFI
Use of Resources
Going concern
Other matters requiring further discussion
Other matters requiring further discussion 2
Irregularities (including fraud)
Accounting estimates
IT general controls
Ethical Standard
Independence
Appendices contents

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

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Council

Risk detail

- 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

Our audit procedures will include the following:

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

VALUATION OF INVESTMENTS (PRIVATE EQUITY, INFRASTRUCTURE AND PROPERTY FUNDS)

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets
Valuation of pension liability
Waste Treatment Plant PFI
Use of Resources
Going concern
Other matters requiring further discussion
Other matters requiring further discussion 2
Irregularities (including fraud)
Accounting estimates
IT general controls
Ethical Standard
Independence
Appendices contents

The valuation of private equity, infrastructure and property funds investments is a significant risk as it involves a high degree of estimation uncertainty.

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

Risk detail

- The investment portfolio includes unquoted private equity, infrastructure and pooled property funds which are valued by the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.
- In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. Due to current market volatility the valuation received can quickly become outdated.
- As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

Planned audit approach

Our audit procedures will include the following:

- Obtain direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund;
- Review the valuation completed by the fund manager and any significant assumptions made in the valuation;
- Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensure investments have been correctly valued in accordance with the relevant accounting policies.

VALUATION OF PENSION LIABILITY

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets
Valuation of pension liability
Waste Treatment Plant PFI
Use of Resources
Going concern
Other matters requiring further discussion
Other matters requiring further discussion 2
Irregularities (including fraud)
Accounting estimates
IT general controls
Ethical Standard
Independence
Appendices contents

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 Council

Risk detail

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The most recent actuarial valuation of the pension fund liability was carried out during the 2019/20 year to calculate the liability as at 31 March 2019. This involved the provision of membership and cash flow data from the pension fund to the actuary, data cleansing by the actuary and re-setting the financial and actuarial assumptions related to the valuation. The estimate of the pension fund liability at 31 March 2021 is based on a roll-forward of data from the 2019 triennial valuation, updated where necessary.

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

Planned audit approach

Our audit procedures will include the following:

- Reviewing the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Test a sample of membership and cash flow data sent to the actuary for existence and accuracy, and reconcile the membership data sent to the actuary to the membership administration system for completeness;
- Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions;
- Check whether any significant changes in membership data have been communicated to the actuary; and
- Agreeing the disclosure to the information provided by the actuary.

VALUATION OF INVESTMENTS (POOLED INVESTMENT VEHICLES AND OTHER INVESTMENTS)

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview

Management override of controls

Valuation of investments
(unquoted and direct property
investments)

Pension liability valuation

Valuation of investments (Pooled
investments)

Contributions receivable

Other matters requiring further
discussion

Going concern

IT general controls

Independence

Appendices contents

There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.

Significant risk

Normal risk

Fraud risk

Assess design &
implementation of controls to
mitigate

Significant Management
estimates & judgements

Controls testing
approach

Substantive testing approach

Risk detail

- The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (BNY Mellon). These valuation are reported on a monthly/quarterly basis.
- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Planned audit approach

Our audit procedures will include the following:

- Obtain direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts;
- Ensure that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

CONTRIBUTIONS RECEIVABLE

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Valuation of investments (unquoted and direct property investments)
Pension liability valuation
Valuation of investments (Pooled investments)
Contributions receivable
Other matters requiring further discussion
Going concern
IT general controls
Independence
Appendices contents

There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk detail

- Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary.
- Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.
- There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Planned audit approach

Our audit procedures will include the following:

- Test a sample of normal contributions due (and additional deficit contributions where included in a higher employer rate) for active members including checking to employer payroll records;
- Review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carry out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

GOING CONCERN

Management are required to make an assessment of the Pension Fund's ability to continue as a going concern.

Directors' responsibilities

It is Management's responsibility to make an assessment of the Pension Fund'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 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 Pension Fund's financial performance including forecasting and budgeting processes and the risk assessment process. We will evaluate:

- a) The method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other
- b) The 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.

OTHER MATTERS REQUIRING FURTHER DISCUSSION

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview

Management override of controls

Revenue recognition

Expenditure cut-off

Valuation of non-current assets

Valuation of pension liability

Waste Treatment Plant PFI

Use of Resources

Going concern

Other matters requiring further discussion

Other matters requiring further discussion 2

Irregularities (including fraud)

Accounting estimates

IT general controls

Ethical Standard

Independence

Appendices contents

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 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 Corporation's internal audit function although we do not plan place reliance on their work in respect of their assessment of control processes

Laws and regulations

We will consider compliance with laws and regulations. We will make enquiries of management and review correspondence with the relevant authorities.

OTHER MATTERS REQUIRING FURTHER DISCUSSION 2

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview

Management override of controls

Revenue recognition

Expenditure cut-off

Valuation of non-current assets

Valuation of pension liability

Waste Treatment Plant PFI

Use of Resources

Going concern

Other matters requiring further discussion

Other matters requiring further discussion 2

Irregularities (including fraud)

Accounting estimates

IT general controls

Ethical Standard

Independence

Appendices contents

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

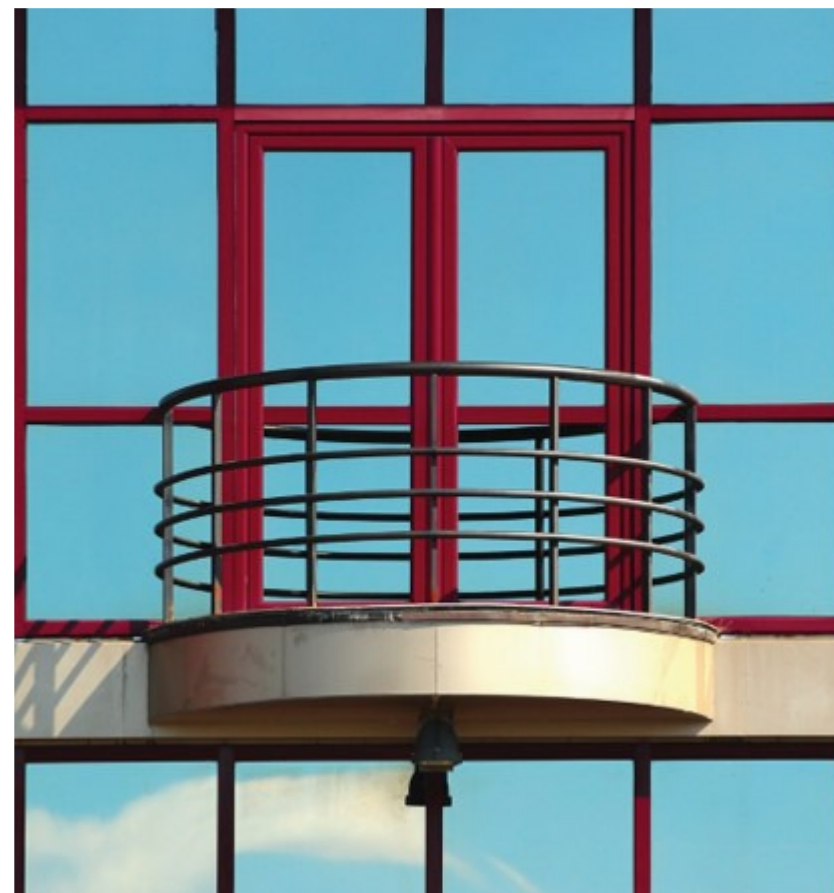
We will report to you on the sufficiency and content of your financial statement disclosures.

Contingencies

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

Any other matters

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



IRREGULARITIES (INCLUDING FRAUD)

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue recognition
Expenditure cut-off
Valuation of non-current assets
Valuation of pension liability
Waste Treatment Plant PFI
Use of Resources
Going concern
Other matters requiring further discussion
Other matters requiring further discussion 2
Irregularities (including fraud)
Accounting estimates
IT general controls
Ethical Standard
Independence
Appendices contents

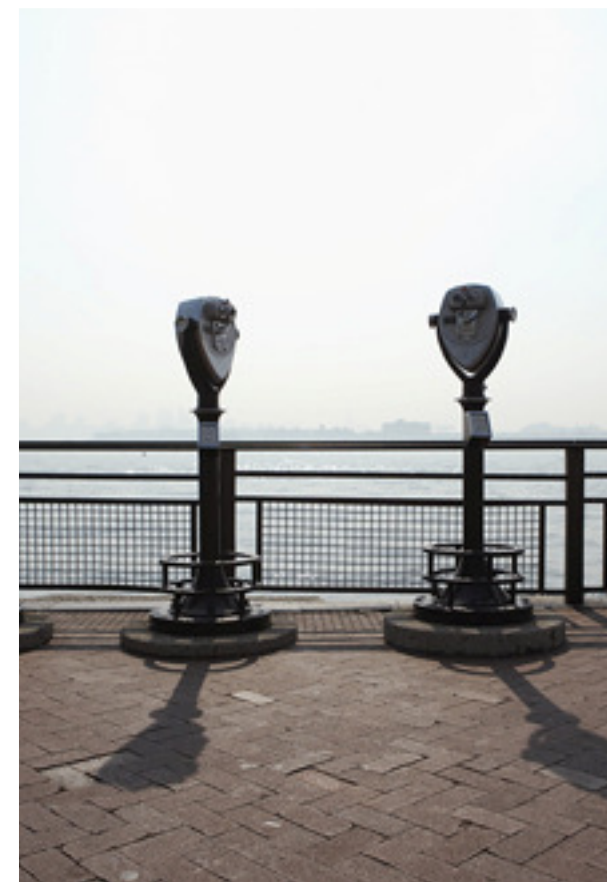
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

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

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the Pension Fund'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 relevant Corporation and Pension Fund meetings throughout the year and of correspondence with regulatory authorities
- Written representations.

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



ACCOUNTING ESTIMATES

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview

Management override of controls

Revenue recognition

Expenditure cut-off

Valuation of non-current assets

Valuation of pension liability

Waste Treatment Plant PFI

Use of Resources

Going concern

Other matters requiring further discussion

Other matters requiring further discussion 2

Irregularities (including fraud)

Accounting estimates

IT general controls

Ethical Standard

Independence

Appendices contents

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

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

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

- Make those responsible for deriving or changing your accounting estimates aware of relevant significant transactions, conditions or events
- Review the outcome(s) of previous accounting estimates and respond to the results of that review
- Identify and comply with the relevant requirements in the applicable financial reporting framework regarding your accounting estimates and related disclosures including how they are affected by complexity and your judgment
- Account for regulatory factors relevant to the Pension Fund'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.

IT GENERAL CONTROLS

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview

Management override of controls

Revenue recognition

Expenditure cut-off

Valuation of non-current assets

Valuation of pension liability

Waste Treatment Plant PFI

Use of Resources

Going concern

Other matters requiring further discussion

Other matters requiring further discussion 2

Irregularities (including fraud)

Accounting estimates

IT general controls

Ethical Standard

Independence

Appendices contents

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
- Altair



FRC ETHICAL STANDARD (DECEMBER 2019)

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Ethical Standard
FRC Ethical Standard (December 2019)
Independence
Appendices contents

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

Key headlines	Impact
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.

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Ethical Standard
Independence
Independence
Appendices contents

INDEPENDENCE

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

We have embedded the requirements of the 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 Corporation and Pension Fund.

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 and the Pension Fund.

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 Pension Fund 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.



APPENDICES CONTENTS

A	Responsibilities	30
	Council's responsibilities	30
	Our responsibilities	31
	Communication with you	32
B	Independence	33
	Team member rotation	33
C	Materiality	34
	Materiality: Definition and application	34

	Materiality: Definition and application	35
D	Accounting Standards	36
	New Accounting Standards, Auditing Standards and Other Financial Reporting Developments	36
E	AQR Results	37
	AQR Results 2019/20	37
	AQR Results 2019/20 2	38

CORPORATION'S RESPONSIBILITIES

The Corporation's responsibilities and reporting

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Accounting Standards

AQR Results

AQR Results 2019/20 2

Financial reporting

The Corporation and Pension Fund are expected to have effective governance arrangements to deliver their 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 and Pension Fund'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 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.

OUR RESPONSIBILITIES

Responsibilities and reporting

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Accounting Standards

AQR Results

AQR Results 2019/20 2

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.

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.



COMMUNICATION WITH YOU

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Accounting Standards

AQR Results

AQR Results 2019/20 2

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.

CONTENTS
Appendices contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Accounting Standards
AQR Results
AQR Results 2019/20 2

TEAM MEMBER ROTATION

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 Engagement lead	1	10 years
Francesca Palmer Manager	2	10 years

Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	3	7 years

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Accounting Standards
AQR Results
AQR Results 2019/20 2

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 Pension Fund, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements.

Reassessment of materiality

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

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

Definition of materiality under IFRS

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

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Accounting Standards

AQR Results

AQR Results 2019/20 2



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.

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Accounting Standards
AQR Results
AQR Results 2019/20 2

NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

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

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments	Expected effect				Effective for periods beginning on or after 1 January	
	None	Low	Medium	High	2020	2021
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			●		●	

AQR RESULTS 2019/20

BDO Performance

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Accounting Standards
AQR Results
AQR Results 2019/20 2

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](#).

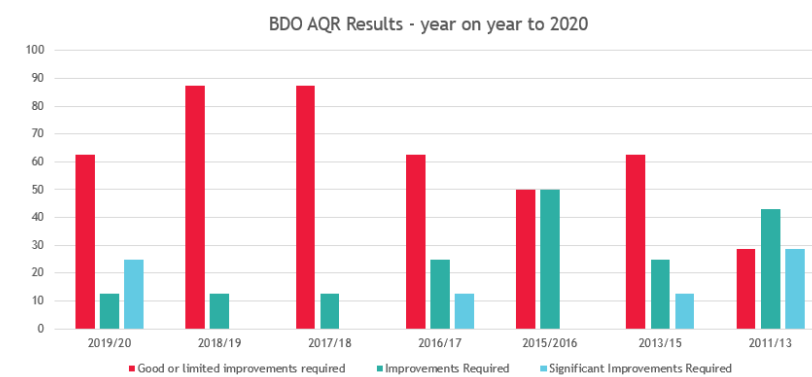
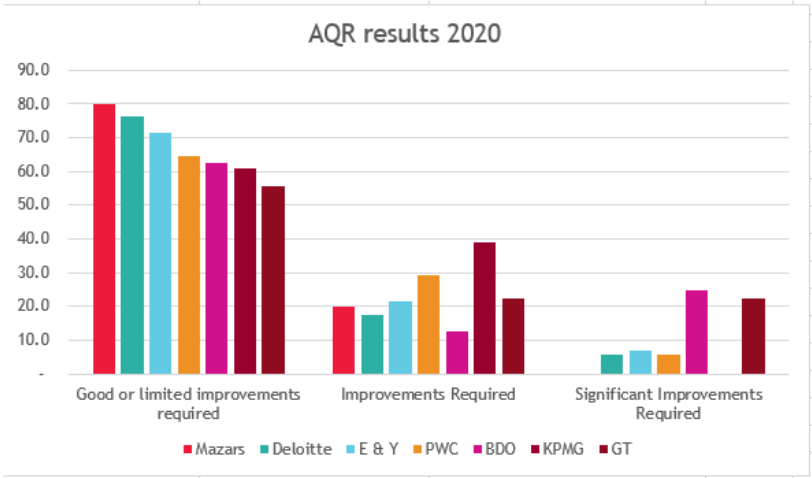
Firm's Results

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

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

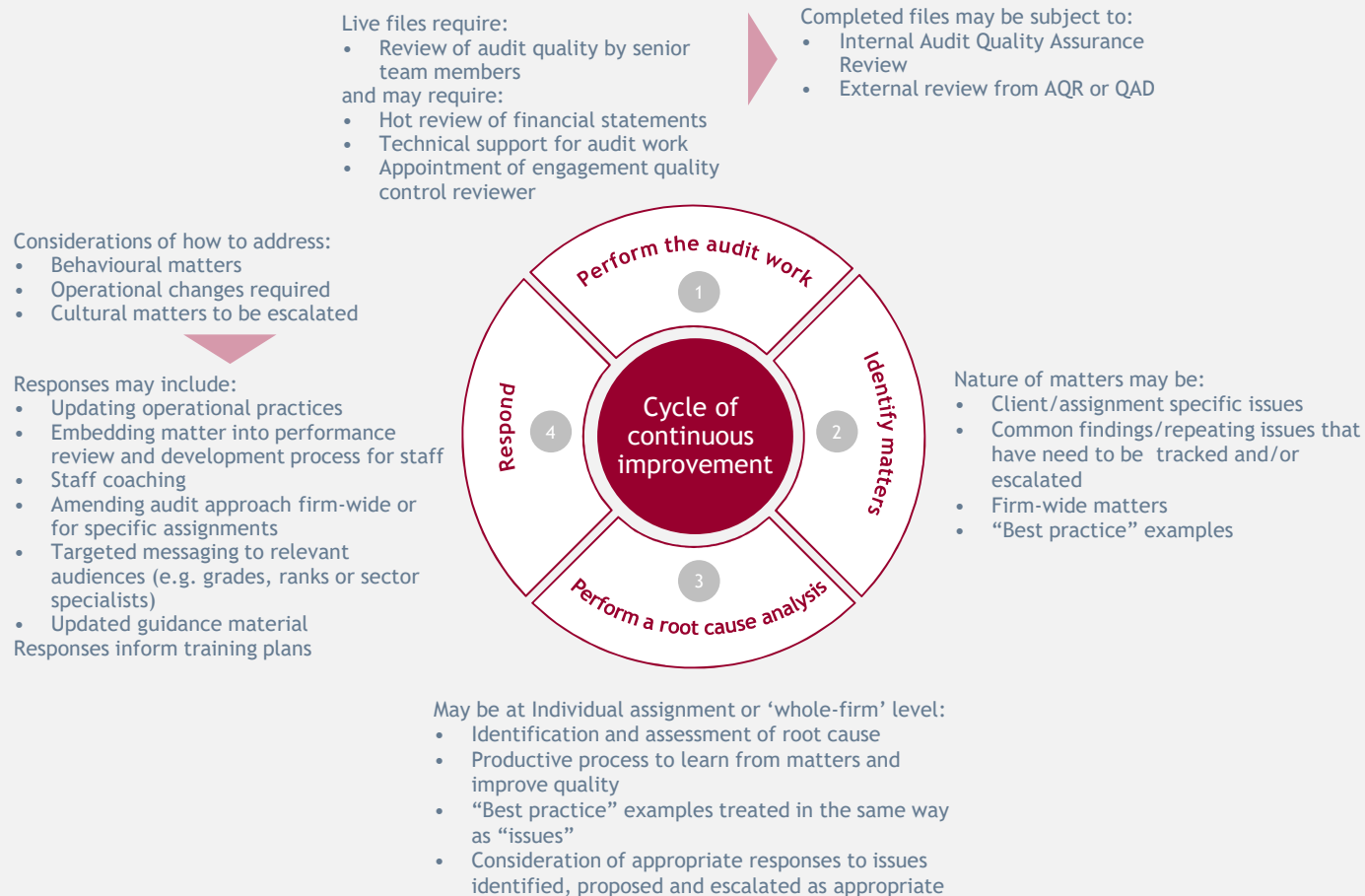
Materiality

Materiality: Definition and application

Accounting Standards

AQR Results

AQR Results 2019/20 2



FOR MORE INFORMATION:

David Eagles
Partner

t: 01473 320728
m: 07967 203431
e: david.eagles@bdo.co.uk

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

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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

© 2021 BDO LLP. All rights reserved.

www.bdo.co.uk