



Essex County Council

Audit Planning Report: Year ended 31 March 2022

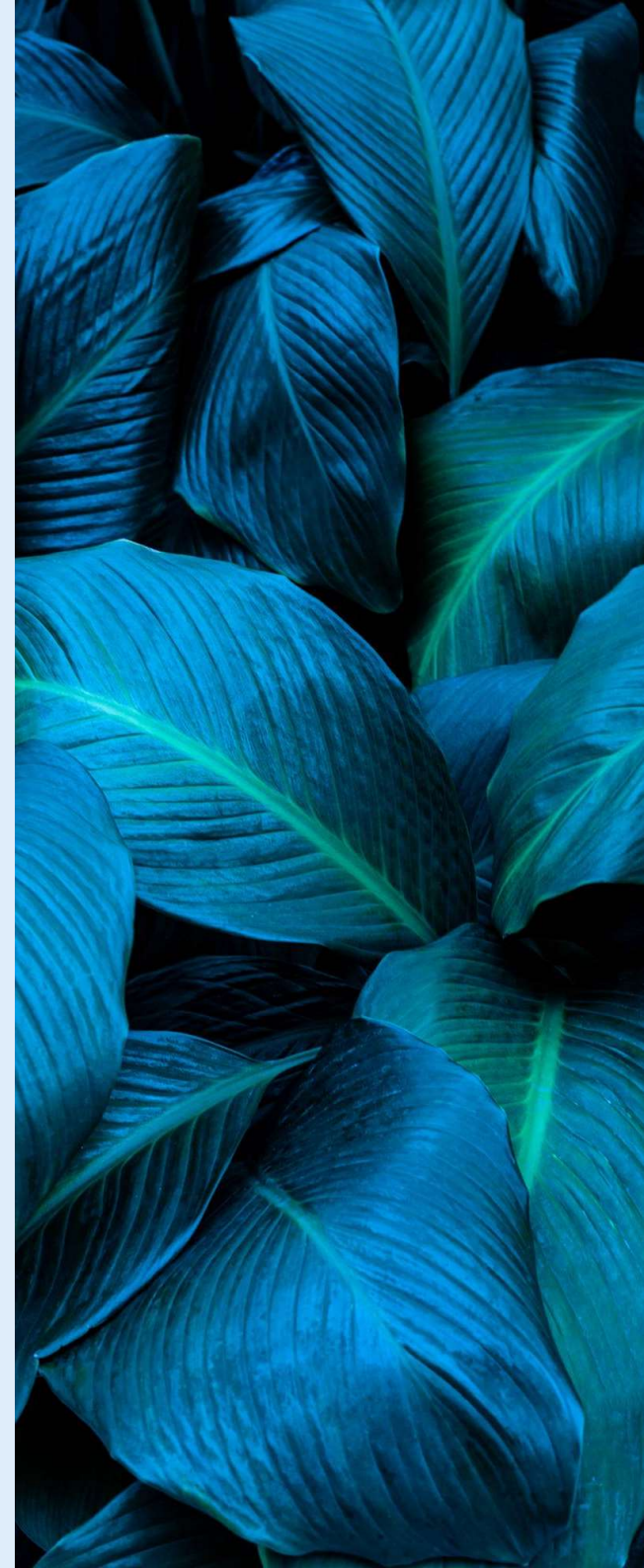
Report to the Audit, Governance and Standards Committee

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Contents

Table Of Contents	2
Introduction	3
Executive summary	4
Independence and fees	5
Audit scope and objectives	6
Audit timeline	7
Audit scope entities	8
Overview of risks	9
Management override	10
Fraud in revenue recognition	11
Expenditure cut-off	12
Property valuations	13
Value of infrastructure	14
Valuation of net pension liability	15
Implementation of myOracle	16
Use of resources	17
Matters for further discussion	18
Related parties, Contingencies	19
Irregularities (including fraud)	20
Understanding IT environment	21
Our Approach	22
Appendices contents	23
Council's responsibilities	24
Our responsibilities	25
Communication with you	26
Partner rotation	27
New Accounting Standards	28
Other information	29
Quality Assurance	30
AQR results 2021/22	31



Welcome

Introduction

- Table Of Contents
- **Introduction**
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- Appendices contents

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

It summarises the planned audit strategy for the year ended 31 March 2022 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 the audit timeline.

At the time of writing, our risk assessment procedures remain ongoing. Should any new audit risks not included in this planning report be identified, we will discuss these with management and communicate them to those charged with governance as soon as is practicable.

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

We look forward to discussing this plan with you at the Audit, Governance and Standards Committee meeting on 28 November 2022 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**, Appointed Auditor
10 November 2022

This report has been prepared solely for the use of the Audit, Governance and Standards 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.



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The numbers

Executive summary

- Table Of Contents
- Introduction
- **Executive summary**
 - Independence and fees
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- Appendices contents

This summary provides an overview of the audit scope and materiality for the year ended 31 March 2022.

Audit scope

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

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

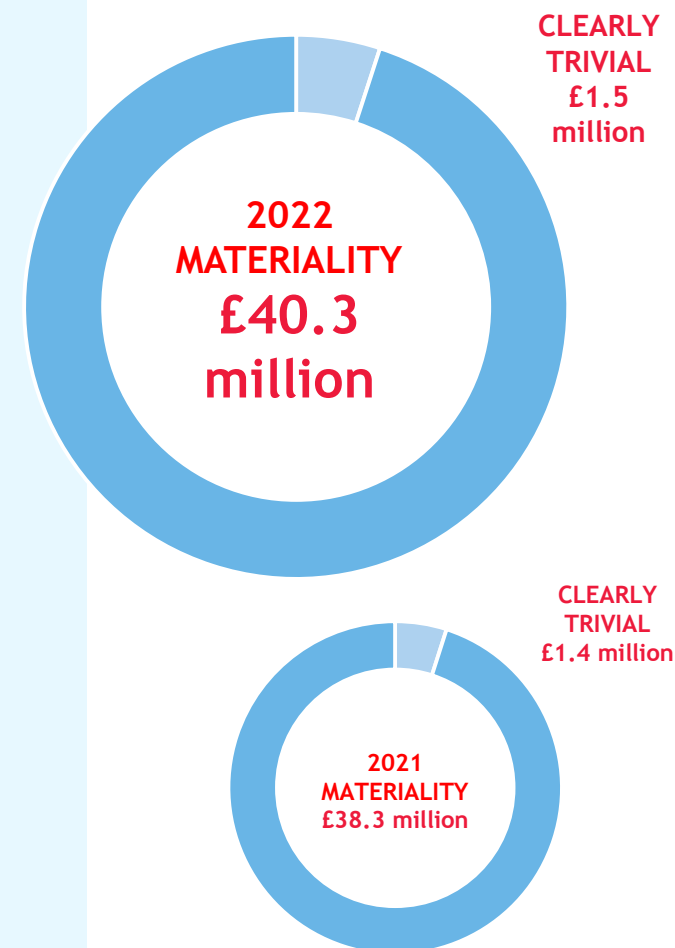
Materiality for the Group is based on 1.75% of gross expenditure and is outlined in the adjacent chart. Component materiality, including that of the Council as a single entity, is detailed on page 8 of this report.

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

Council's responsibilities

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 2021/22, 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 the financial statements.



Independence and fees

Executive summary

- Table Of Contents
- Introduction
- **Executive summary**
 - **Independence and fees**
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- Appendices contents

Independence

We confirm that the firm, and the engagement team conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and the IESBA Code of Ethics and are independent of the Group.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the table below. We have not identified any threats to our independence arising from the provision of these services.

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

Amendments to proposed fees

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

	Fees (£)	
	2021/22	2020/21
Statutory audit: Code Scale fee	⁽¹⁾ 126,165	126,165
Additional recurring audit fee: audit approach	⁽²⁾ 33,500	⁽²⁾ 8,155
Additional audit fee: risk related work for 2021/22	⁽³⁾ 8,600	-
Additional recurring audit fee: new use of resources approach	⁽⁴⁾ 13,400	⁽⁴⁾ TBC
Additional recurring audit fee: IT environment and general controls (see pages 21 and 22 for further details)	27,200	TBC
Total proposed audit fees	208,865	⁽⁵⁾TBC
Fees for non-audit services		
Teachers' Pensions - agreed upon procedures	13,500	12,250
Total fees	222,365	TBC

Fee variances

(1) The Code fee quoted is the PSAA scale fee of £126,165

(2) The £8,155 added for 2020/21 was the sum from 2019/20 reflecting the increased expectations relating to the work necessary to audit valuations of land and buildings, pension liabilities and group accounts. The 2021/22 value reflects what we now recognise is a recurring increase in the volume and detail of valuations work, which for 2020/21 will be reflected in the outturn, plus enhanced income recognition risk assessment approach (which will become part of the ISA315 from 2022/23).

(3) The additional fee for risk related work covers the following risks:

- national issue relating to infrastructure assets (see page 14)
- implementation of the new enterprise resource planning system in November 2021 (see page 16)

(4) The audit fee is based on audit scope under the Code of Audit Practice. A new Code became effective for periods commencing 1 April 2020 which significantly increased the work of auditors for reporting on a body's use of resources. We estimate the additional fee associated with the new approach to be 10% of the statutory audit fee.

(5) Our 2020/21 audit of the financial statements and use of resources work remains in progress at the date of this planning report.

Overview

Audit scope and objectives

- Table Of Contents
- Introduction
- Executive summary
- **Audit scope and objectives**
 - Audit timeline
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- Appendices contents

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

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

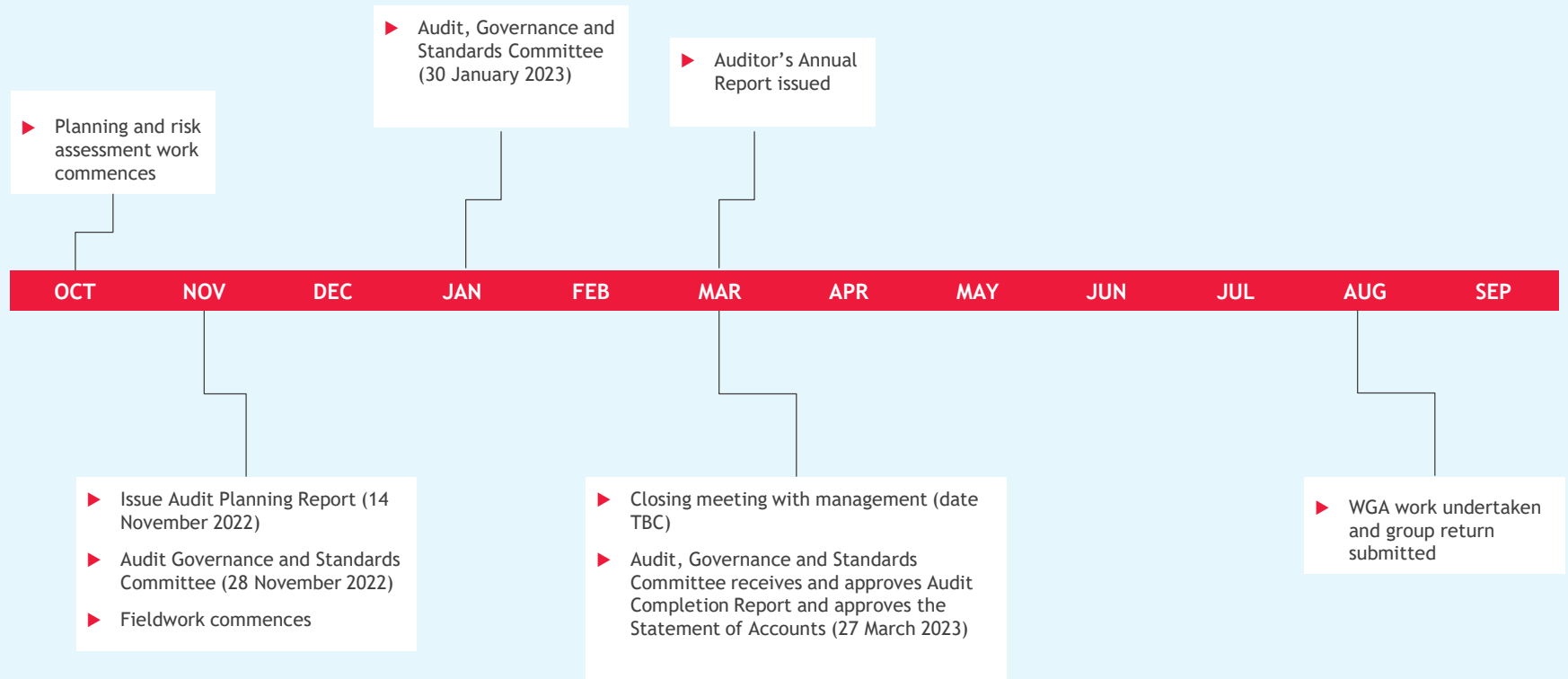
We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2021/22 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
WGA	We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Audit Completion Report to the Audit, Governance and Standards Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit, Governance and Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.
Use of resources and Auditor's Annual Report	We will provide an annual commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The commentary will explain the work that we have undertaken during the year and highlight any significant weaknesses identified, along with any recommendations for improvement. The commentary will also draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the Council. The Auditor's Annual Report is required to be published by the Council.

Audit timeline

An overview of the key dates

- Table Of Contents
- Introduction
- Executive summary
- **Audit scope and objectives**
 - **Audit timeline**
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- Appendices contents



Audit scope entities, components and audit risks

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- **Audit scope entities**
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- Appendices contents

As Group auditor we are required to design an audit strategy to ensure we have obtained the required audit assurance for each component for the purposes of our Group audit opinion ISA (UK) 600. A high-level overview of how we have designed the Group audit strategy is summarised below to ensure you have clear oversight of the scope of the work we intend to perform on each entity.

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

The clearly trivial threshold for the Group has been set at the Group level at £1.5 million. The clearly trivial threshold for the components is as set out in the table below.

Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality and basis of assessment	Component clearly trivial threshold	Audit strategy
Essex County Council	Local authority	Significant component	Size and risk	Risks 1 - 7	£40.2 million	£1.5 million	Statutory audit performed by BDO.
Essex Cares Ltd	Social care	Non significant component	Size	None identified	N/A	N/A	Desktop review performed by BDO
Essex Housing Development LLP	House building	Non significant component	Size	None identified	N/A	N/A	Desktop review performed by BDO

Overview of risks

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- **Overview of risks**
 - Management override
 - Fraud in revenue recognition
 - Expenditure cut-off
 - Property valuations
 - Value of infrastructure
 - Valuation of net pension liability
 - Implementation of myOracle
 - Use of resources
- Matters for further discussion
- Understanding IT environment
- Appendices contents

Our Audit Strategy is built 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.

We have discussed the changes to the business, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Group's activities and to determine which risks impact on the numbers and disclosures in the financial statements. Our risk assessment procedures remain on going and we will continue to update this assessment throughout the audit.

The following pages describe in more detail each risk in the table below, including the audit procedures we plan to complete to address the risk. These procedures are designed to provide assurance against one or more of five 'assertions' identified as being relevant to that risk. These assertions are as follows:

- C - Completeness
- E - Existence
- A - Accuracy
- V - Valuation
- P - Presentation

#	Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
1	Management override	Significant	Yes	Substantive	High
2	Fraud in revenue recognition	Significant	Yes	Substantive	High
3	Expenditure cut-off	Significant	Yes	Substantive	High
4	Valuation of land and buildings and investment properties	Significant	Yes	Substantive	High
5	Value of infrastructure	Significant	No	Substantive	High
6	Valuation of net pension liability	Significant	No	Substantive	High
7	Implementation of MyOracle	Significant	No	Substantive	Low

Risk 1

Management override of controls

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
 - Management override
 - Fraud in revenue recognition
 - Expenditure cut-off
 - Property valuations
 - Value of infrastructure
 - Valuation of net pension liability
 - Implementation of myOracle
 - Use of resources
- Matters for further discussion
- Understanding IT environment
- Appendices contents

	C	E	A	V	P	2021/22	2020/21
Management override	✓	✓	✓	✓	✓	All transactions and balances	All transactions and balances

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:

- A 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 audit specialists to assist with the journal extraction;
- Evaluation of risks arising from automated journals
- Evaluate findings from evaluation of design and implementation of IT general controls
- A review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

Key to audit assertions:

C - Completeness

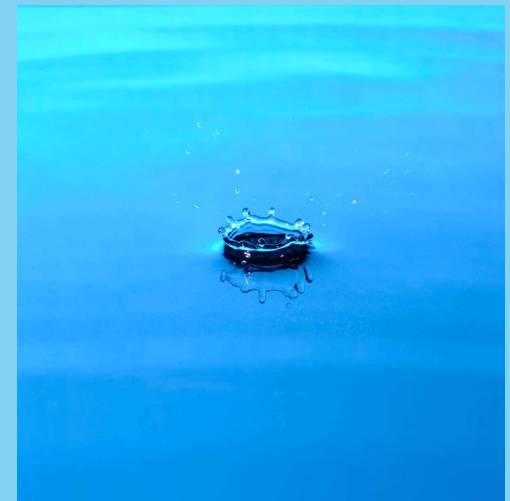
E - Existence

A - Accuracy

V - Valuation

P - Presentation

● Significant risk
Normal risk
● Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
● Substantive testing approach



Risk 2

Fraud in revenue recognition

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
 - Management override
 - **Fraud in revenue recognition**
 - Expenditure cut-off
 - Property valuations
 - Value of infrastructure
 - Valuation of net pension liability
 - Implementation of myOracle
 - Use of resources
- Matters for further discussion
- Understanding IT environment
- Appendices contents

	C	E	A	V	P	2021/22	2020/21
Specific revenue grants		✓	✓			£787.997 million	£784.637 million

Risk detail

- Auditing standards note that there is a presumed significant risk resulting from the intentional misstatement of revenue
- The amounts reported in relation to revenue represent information of significant interest to many users of the financial statements. This puts revenue at a greater risk of manipulation, bias and misstatement.
- For the Council, we consider the risk of fraudulent revenue recognition (primarily through manipulation of financial reporting) to be in respect of the existence and accuracy of revenue grants subject to specific performance conditions.

Planned audit approach

- Our audit procedures will include the following:
- Testing a sample of grants included in income to supporting documentation from grant paying bodies and check whether recognition criteria have been met

Key to audit assertions

C - Completeness
E - Existence

A - Accuracy
V - Valuation

P - Presentation

● Significant risk
Normal risk
● Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
● Substantive testing approach



Risk 3

Expenditure cut-off

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
 - Management override
 - Fraud in revenue recognition
 - Expenditure cut-off
 - Property valuations
 - Value of infrastructure
 - Valuation of net pension liability
 - Implementation of myOracle
 - Use of resources
- Matters for further discussion
- Understanding IT environment
- Appendices contents

	C	E	A	V	P	2021/22	2020/21
Expenditure around year end	✓					All expenditure around year end	All expenditure around year end

Risk detail

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

Planned audit approach

- Our audit procedures will include the following:
- Checking that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure around year-end.

Key to audit assertions

- C - Completeness
- E - Existence
- A - Accuracy
- V - Valuation
- P - Presentation

● Significant risk
Normal risk
● Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
● Substantive testing approach



Risk 4

Valuation of land and buildings and investment property

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- **Overview of risks**
 - Management override
 - Fraud in revenue recognition
 - Expenditure cut-off
 - **Property valuations**
 - Value of infrastructure
 - Valuation of net pension liability
 - Implementation of myOracle
 - Use of resources
- Matters for further discussion
- Understanding IT environment
- Appendices contents

	C	E	A	V	P	2021/22	2020/21
Land and buildings				✓		£1.422 billion	£1.344 billion
Investment properties				✓		£40.402 million	£38.446 million

Risk detail

- Local authorities are required to ensure that the carrying value of land and buildings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.
- The Council applies a five-year rolling revaluation programme to its land and buildings, with surplus assets and investment properties revalued annually. A market review is performed at the end of the financial year to determine whether material movements may have occurred since the valuation date. Property revaluations and the market review are undertaken by the Council's external property advisors.
- Due to the significant value of the Council's land, buildings and investment properties, there is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

Planned audit approach

Our audit procedures will include the following:

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

Key to audit assertions

C - Completeness
E - Existence

A - Accuracy
V - Valuation

P - Presentation

● Significant risk
Normal risk
● Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
● Substantive testing approach



Risk 5

Value of infrastructure

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
 - Management override
 - Fraud in revenue recognition
 - Expenditure cut-off
 - Property valuations
 - **Value of infrastructure**
 - Valuation of net pension liability
 - Implementation of myOracle
 - Use of resources
- Matters for further discussion
- Understanding IT environment
- Appendices contents

	C	E	A	V	P	2021/22	2020/21
Infrastructure				✓		£1.284 billion	£1.227 billion

Risk detail

- The Council is designated as a Highways Authority under the Highways Act 1980 and is responsible for managing and maintaining public roads within its boundary (except for those which are part of the Strategic Road Network, primarily motorways and major A roads).
- In fulfilling its responsibilities under the Highways Act 1980, the Council incurs capital expenditure on items such as roads, footways, bridges and street furniture. This expenditure is recognised on the Council's balance sheet as property plant and equipment and is classified as infrastructure.
- The way in which infrastructure assets are accounted for and the extent to which current practice reflects the requirements of CIPFA's Code of Practice on Local Authority Accounting has recently become a national issue, the details of which have been discussed at previous meetings of the Audit, Governance and Standards Committee.
- At the time of writing, stakeholders (including local authorities, audit firms and the Department for Levelling Up, Housing and Communities), continue to consider how these issues might be addressed in the medium to long term.

- In the short term, a statutory instrument is currently expected to come into force towards the end of 2022 which will help address the issues. CIPFA has also consulted on guidance regarding the application of useful economic lives to infrastructure assets.

Planned audit approach

Our audit procedures will include the following:

- Review how management have implemented the directions included in the statutory instrument (assuming the statutory instrument comes into force in accordance when expected)
- Review and corroborate any changes to accounting estimates relating to the useful economic lives applied infrastructure assets.

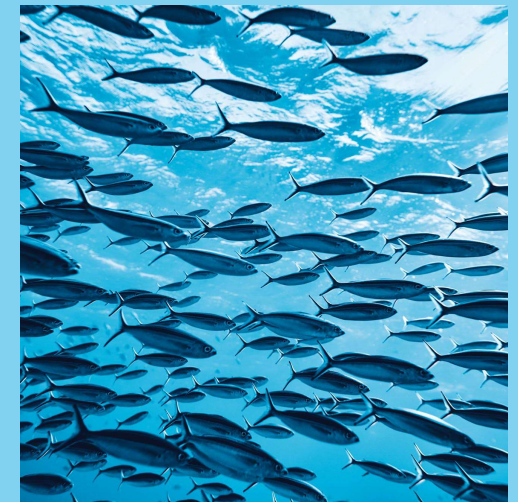
Key to audit assertions

C - Completeness
E - Existence

A - Accuracy
V - Valuation

P - Presentation

● Significant risk
Normal risk
Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
● Substantive testing approach



Risk 6

Valuation of net pension liability

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
 - Management override
 - Fraud in revenue recognition
 - Expenditure cut-off
 - Property valuations
 - Value of infrastructure
 - Valuation of net pension liability
 - Implementation of myOracle
 - Use of resources
- Matters for further discussion
- Understanding IT environment
- Appendices contents

	C	E	A	V	P	2021/22	2020/21
Net pensions liability				✓		£766.756 million	£1.043 billion

Risk detail

- The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.
- The valuation of the pension liability is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.
- There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

Planned audit approach

Our audit procedures will include the following:

- Agreeing the disclosures to the information provided by the pension fund actuary;
- Reviewing the competence of the management expert (actuary);
- Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewing the controls in place for providing accurate membership data to the actuary;
- Contacting the pension fund audit team and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checking that any significant changes in membership data have been communicated to the actuary.

Key to audit assertions

C - Completeness
E - Existence

A - Accuracy
V - Valuation

P - Presentation

● Significant risk
Normal risk
Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
● Substantive testing approach



Risk 7

Implementation of MyOracle

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- **Overview of risks**
 - Management override
 - Fraud in revenue recognition
 - Expenditure cut-off
 - Property valuations
 - Value of infrastructure
 - Valuation of net pension liability
 - **Implementation of myOracle**
 - Use of resources
- Matters for further discussion
- Understanding IT environment
- Appendices contents

	C	E	A	V	P	2021/22	2020/21
All transactions and balances	✓		✓			All transactions and balances	All transactions and balances

Risk detail

- On 1 November 2021, the Council implemented a new, cloud-based enterprise resource planning system. This involved the migration of existing financial data from the previous system to the new system.
- There is a risk that data from the previous system has not been completely or accurately transferred to the new system, which may result in errors in the Statement of Accounts.

Planned audit approach

- Our audit procedures will include the following:
- Our IT audit specialists will review the project management arrangements employed for the implementation of the new system to ensure they are consistent with best practice and expected controls were in place
 - Review and test reconciliations performed by the Council between the data in the new system and that in the old system.

Key to audit assertions

C - Completeness
E - Existence

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V - Valuation

P - Presentation

● Significant risk
Normal risk
Fraud risk
● Related controls identified to mitigate risk
Significant Management estimates & judgements
Controls testing approach
● Substantive testing approach



Use of Resources

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- **Overview of risks**
 - Management override
 - Fraud in revenue recognition
 - Expenditure cut-off
 - Property valuations
 - Value of infrastructure
 - Valuation of net pension liability
 - Implementation of myOracle
 - **Use of resources**
- Matters for further discussion
- Understanding IT environment
- Appendices contents

Code of Audit Practice (the 'Code') requirements

The Comptroller & Auditor General has determined through the 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 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.

Our use of resources risk assessment process for 2021/22 has not yet commenced.

We will update the Audit, Governance and Standards Committee on risks of significant weakness and planned work when we have completed our risk assessment and planned response. Subject to risks being identified, we will issue an updated version of this report.

Other matters requiring further discussion

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- **Matters for further discussion**
 - Related parties, Contingencies
 - Irregularities (including fraud)
- Understanding IT environment
- Appendices contents

Fraud

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

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

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 2021/22 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.

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 Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities.

Other matters requiring further discussion 2

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- **Matters for further discussion**
 - Related parties, Contingencies
 - Irregularities (including fraud)
- Understanding IT environment
- 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 request input from the Audit, Governance and Standards Committee on any recent claims of which members are aware.

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.

Audit of revenue

As part of our ongoing commitment to enhancing audit quality, we have recently introduced some amendments to our audit approach in relation to revenue.

The revisions to our audit approach are designed to encourage fresh-perspective thinking in relation to the way we audit revenue and is intended to ensure that our approach is tailored to the audited entity.

We plan to ensure a deep and thorough understanding of all of the Council's revenue streams, a focus on the accounting policies and application of judgements and estimates and taking time to fully explore and document management's system of internal control in place over each revenue stream. This will include considering how IT is used as part of the system of internal control.

Your audit team will then consider in detail the circumstances that may mean that revenue may not be captured, processed, controlled or reported as expected and will consider whether those circumstances represent or coalesce as a risk of material misstatement. Should any resultant risk be identified as significant, the audit team will focus their audit effort on those risks, considering specific controls that management may have designed and implemented to prevent material misstatement, test those controls if feasible, report and control deficiencies and consider what other evidence may be necessary to be able to form our conclusions in this area.

We report details of risks arising in relation to revenue in the section on "audit risk" elsewhere in this report.

As part of these changes, you may notice that the audit team spends more time on this area of the audit than you might expect. We will be pleased to discuss the reasons for this, our findings and where appropriate, any recommendations that we might have for management.

Irregularities (including fraud)

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- **Matters for further discussion**
 - Related parties, Contingencies
 - **Irregularities (including fraud)**
- Understanding IT environment
- Appendices contents

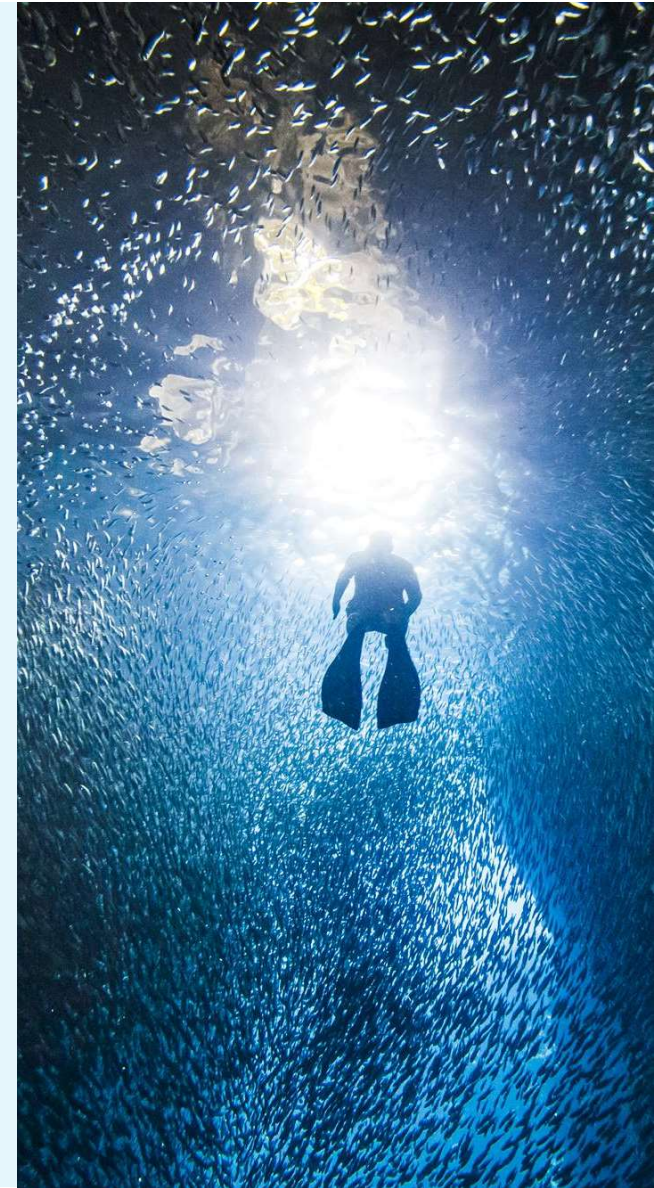
We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

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 company 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 entity's legal advisers
- agreement of the financial statement disclosures to underlying supporting documentation;
- review of minutes of Council and Cabinet 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.



Understanding your IT environment

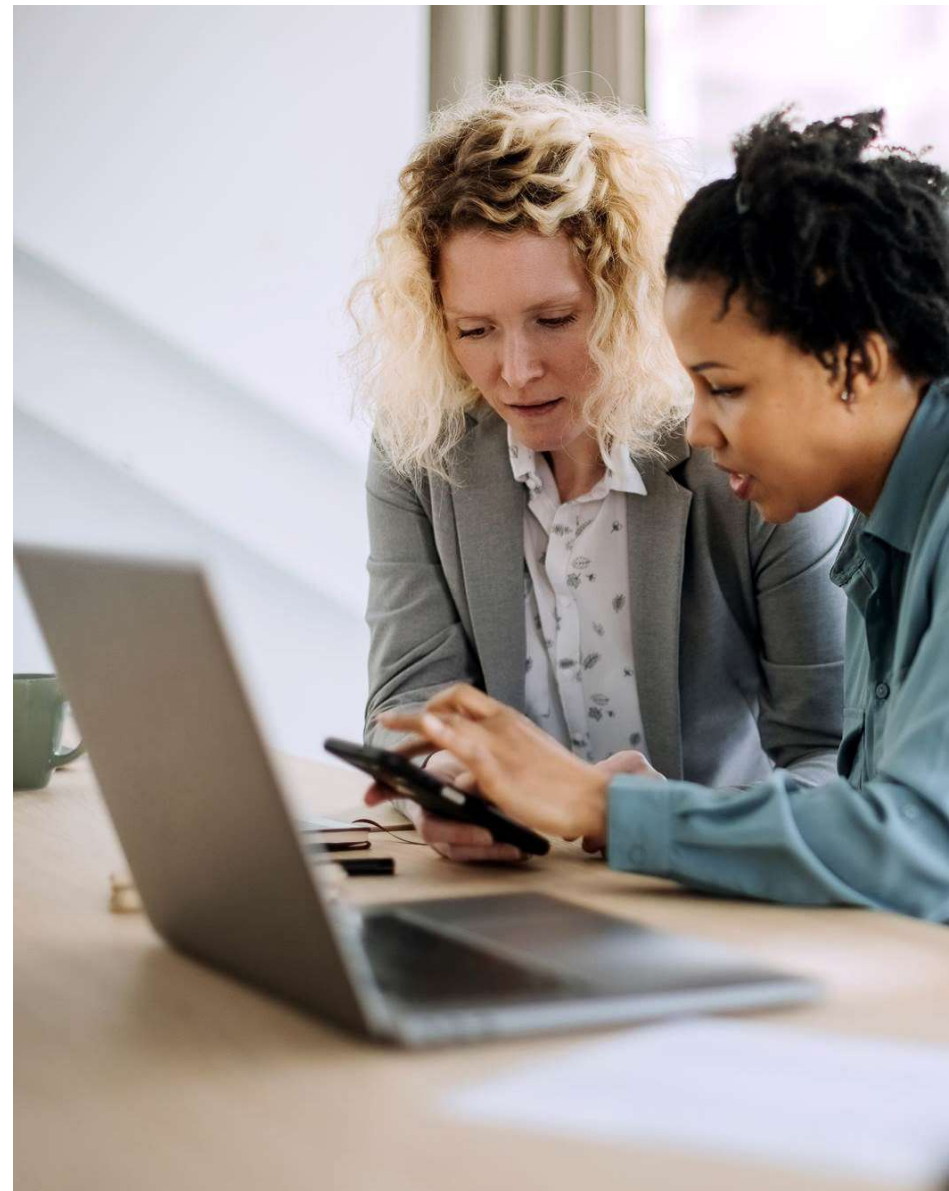
Overview

- ▶ Table Of Contents
- ▶ Introduction
- ▶ Executive summary
- ▶ Audit scope and objectives
- ▶ Audit scope entities
- ▶ Overview of risks
- ▶ Matters for further discussion
- ▶ **Understanding IT environment**
 - Our Approach
- ▶ Appendices contents

Understanding your entity's IT environment is a component of the system of internal control which we must evaluate during risk assessment procedures in accordance with ISA 315 (Revised 2019), Identifying and Assessing Risks of Material Misstatement

The objective of understanding your IT environment is to identify potential risks arising from the use of IT, through identifying key IT applications and processes relevant to the audit. This information will then assist in identifying IT general controls (ITGCs) that address those risks and creating specific audit responses to address those risks, as applicable. We follow the same process for your business cycles and identifying related control activities relevant to the audit.

The IT environment consists of the IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes that an entity uses to support business operations and achieve business strategies.

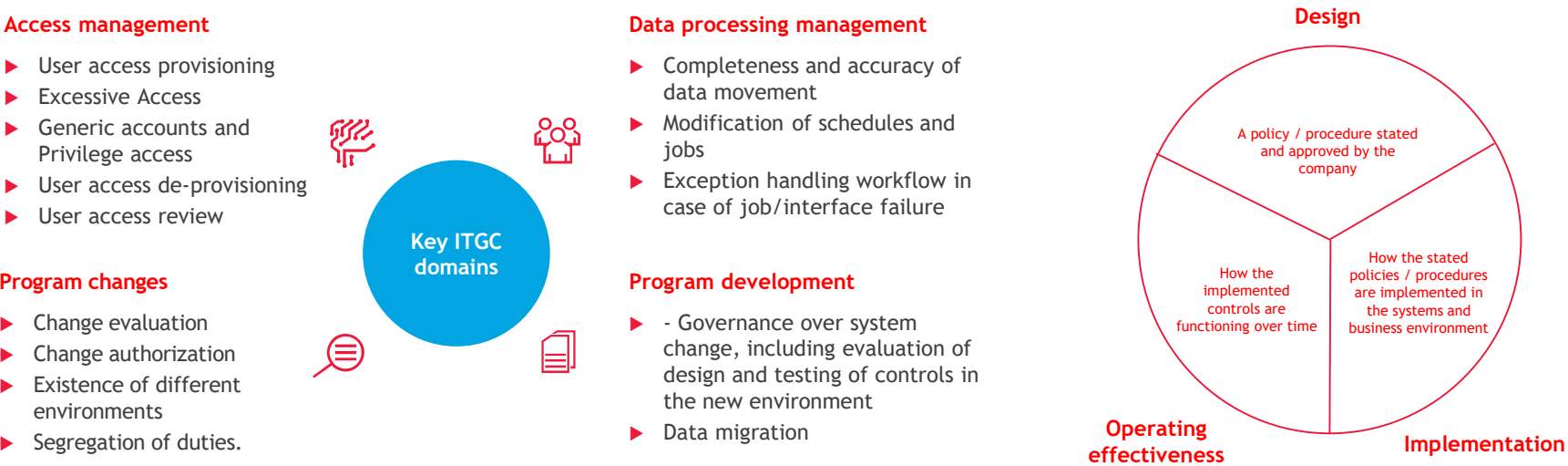


Our Approach

IT Audit Scope and Methodology

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- **Understanding IT environment**
 - Our Approach
- Appendices contents

Based on our understanding of your IT control environment and key business cycles, we will perform procedures over the design and implementation (D&I) of your IT General Controls for the applications and underlying databases, considered to be in scope for the audit. This approach has been outlined below:



Based on our initial understanding of your IT environment, we consider the following applications likely to be in scope for the audit, however we may revise the scope of our work as we proceed further through the planning and execution phases of the audit.

Application in scope	Underlying Database	Business function
Oracle	Oracle	General ledger, accounts receivable, accounts payable and payroll
Mosaic	Microsoft SQL Server	Social care case management system
Capita Pay 360	Microsoft SQL Server	Payments and receipts
RAM	Microsoft SQL Server	Asset and lease register
A4W	Microsoft SQL Server	Management of social care income and expenditure

Appendices contents

- ▶ Table Of Contents
- ▶ Introduction
- ▶ Executive summary
- ▶ Audit scope and objectives
- ▶ Audit scope entities
- ▶ Overview of risks
- ▶ Matters for further discussion
- ▶ Understanding IT environment
- ▶ **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - AQR results 2021/22



Council's responsibilities

The Council's Responsibilities and Reporting

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- **Appendices contents**
 - **Council's responsibilities**
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - AQR results 2021/22

Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

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

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2021/22, applicable accounting standards or other direction under the circumstances.

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

Use of resources

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

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

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



Our responsibilities

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- **Appendices contents**
 - Council's responsibilities
 - **Our responsibilities**
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - AQR results 2021/22

Our responsibilities and reporting - financial reporting

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

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

Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

What we don't report

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

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- Appendices contents
 - Council's responsibilities
 - Our responsibilities
 - **Communication with you**
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - AQR results 2021/22

Those Charged with Governance

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

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

Communication, Meetings and Feedback

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

Planning Report

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

Internal Controls

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

Audit Completion Report

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

Auditor's Annual Report

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

Partner rotation

Independence

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - **Partner rotation**
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - AQR results 2021/22

These tables indicate 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 below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
David Eagles Engagement Lead	4	5 years
Barry Pryke Senior Manager	4	10 years
Steve Rumble IT Audit Partner	2	10 years

Independence - audit quality control

Role	Number of years involved	Rotation to take place before
Engagement Quality Control Reviewer	4	5 years

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments

Audit scope and objectives

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - **New Accounting Standards**
 - Other information
 - Quality Assurance
 - AQR results 2021/22

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 Statement of Accounts.

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	2021	2022
Implementation of IFRS 16 Leases <ul style="list-style-type: none"> early adoption permitted from 1 April 2022 on a voluntary basis (mandatory implementation from 1 April 2024) 				●		● 1 April 2022
Amendments to IAS 37 Onerous Contracts - Costs of Fulfilling a Contract		●				●
ISA (UK) 240 (Revised May 2021) - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements			●			● 15 December 2021
ISA (UK) 315 (Revised July 2020) - Identifying and Assessing the Risks of Material Misstatement				●		● 15 December 2021
The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 - partial replacement of infrastructure assets <ul style="list-style-type: none"> Expected to come into force on 25 December 2022 and applicable to earliest statement of accounts in respect of which the audit certificate has not been issued 				●	●	

Other information

Audit requirements - other information in the annual report

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - **Other information**
 - Quality Assurance
 - AQR results 2021/22

As we note in the 'Overview - Audit Scope and Objectives' section, we have responsibilities in relation to other information (including statutory other information) in the Statement of Accounts.

In order to allow us to fulfil these obligations we ask that you please make available to us the following information as soon as is practicable:

Other Information	A final draft of the other information with relevant supporting documentation, sufficiently far in advance of the date on which the audit report is expected to be signed to give us adequate time to complete our work.
Information not directly derived from the financial statements or accounting records	For information not directly derived from the financial statements or otherwise from the accounting records of the Group, details of the source of that information.
Principal Risks - the Council's assessment of risks	A copy of the risk register or equivalent together with details of the Council's consideration of risks including completeness of risks recorded in the register.
Councils' assessment of going concern	Details of key assumptions, consideration of sensitivity to reasonably possible variations in those assumptions and the Council's overall conclusions.

Quality Assurance

Our Quality Ethos

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - **Quality Assurance**
 - AQR results 2021/22

BDO's quality ethos: bringing audit quality to life

We take audit quality extremely seriously and embrace our responsibility for providing the highest quality assurance and acting in the public interest. Quality assurance is given the highest priority in the firm and is an integral part of the way we work.

All of our employees are bound by our quality assurance policies, which set out common standards for delivery of all our services. These are designed to ensure that your audit meets all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances.

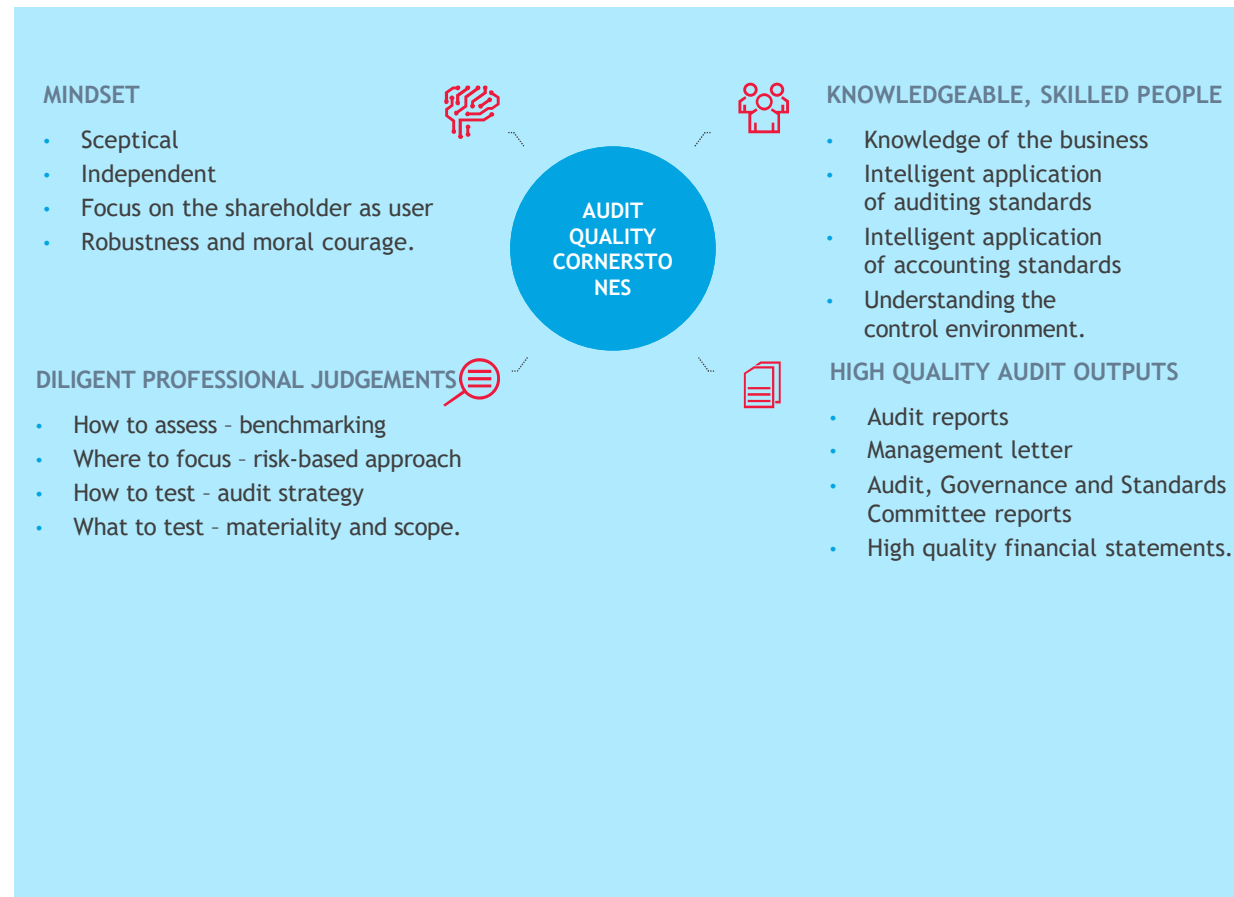
Where your highest audit quality comes from

- All members of the team are subject to external and internal Audit Quality Reviews
- Our team is supplemented with technical and audit quality specialists. We have a Quality and Risk Management team responsible for managing, reviewing and communicating on Quality Assurance policies, procedures, controls and reviews. We use these mechanisms to ensure that we manage internal and external work to a high standard.
- Our well-established quality control procedures and systems support compliance with relevant standards and regulations.

Audit quality cornerstones

A key driver of audit quality is our focus on the component parts required to consistently achieve robust assurance.

We summarise below our four cornerstones of audit quality which underpin our audits:



AQR results 2021/22- An Overview of Corporate Audits

Introduction

- ▶ Table Of Contents
- ▶ Introduction
- ▶ Executive summary
- ▶ Audit scope and objectives
- ▶ Audit scope entities
- ▶ Overview of risks
- ▶ Matters for further discussion
- ▶ Understanding IT environment
- ▶ **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - **AQR results 2021/22**

Overview

The FRC released their Audit Quality Review results for the seven largest accountancy firms in July 2022 for the review period 2021/22. A copy of all of the reports can be found on the [FRC website](#).

Firm's Results

In total, twelve of BDO's audits with year ends between June 2020 and March 2021 were reviewed.

The AQR found that:

- ▶ Seven were deemed good with limited improvements required (grades 1 and 2)
- ▶ One required improvements (grade 3)
- ▶ Four required significant improvements (grade 4).

Our Response

Ensuring we consistently deliver high-quality audits is our top priority. We are disappointed this year's grades do not meet the standards expected by the regulator and our Leadership Team, and will continue to work hard to fully address the FRC's findings.

We have made significant investments in resourcing our audit practice over the last year, including the addition of 350 people to take our overall UK audit team headcount to 2,800. Further investments in audit quality initiatives include recent enhancements to our methodologies and technology. However, these actions take time to embed, and are therefore not reflected in this year's reviews.

Our entire audit practice remains focussed on being able to demonstrate sustained quality improvements over the coming years to restore our leading position in the AQR rankings.

Investment in Audit Quality

As part of our commitment to audit quality, we are investing heavily. This has included the following:

- ▶ Significant recruitment (14% increase headcount in the past year) and appointment of a Head of Resourcing partner who sits on the Audit Executive
- ▶ Significant expansion of our central audit quality and technical support functions, alongside expansion of our Root Cause Analysis (RCA) function, recruiting three additional partners within the Audit Quality Directorate (including a partner to lead the newly established Audit Quality Improvement Team ("AQIT") and a partner focused on root cause analysis) and other senior individuals across these areas. £8m has been allocated to fund this recruitment, and there has already been an expansion in excess of 30% in our audit quality and technical support function.
- ▶ Our Technology Risk Assurance Team ("TRA") has been strengthened with four additional partners and a 25% expansion in the team, as the initial phase of a significant investment project.
- ▶ Investment in 20 new partners within the audit stream, including sector specialists, and around 300 additional professional roles within the audit stream

David Eagles and Barry Pryke have already taken part in our activities to drive audit quality, having attended our Audit Summer School programme, which is mandatory training for all audit employees and partners. The Summer School covers training on the findings from the FRC, such as driving consistent and effective challenge of management.

AQR results 2021/22- An Overview of Public Sector Audits

Introduction

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - **AQR results 2021/22**

Overview

The FRC released their Major Local Audits: Audit Quality Inspection (MLA:AQI) Review results for the six accountancy firms participating in this market in late October 2022 for the review period 2021/22. A copy of all of the reports can be found on the FRC website at . <https://www.frc.org.uk/news/october-2022/frc-publishes-latest-local-audit-inspection-result>

Firm's Results

In total, the FRC reviewed 20 Major Local Audits, including two from BDO.

The AQR's review of financial statements audits found that:

- Fourteen were deemed good with limited improvements required (grades 1 and 2), including one BDO file (local government)
- Three required improvements (grade 3)
- Three required significant improvements (grade 4), including one BDO file (NHS).

The FRC identified three separate areas of good practice for the BDO files, two relating to the grade 4 file.

The AQR's review of value for money work found that:

- Thirteen were deemed good with limited improvements required (grades 1 and 2)
- One required significant improvements (grade 4), which was the BDO file.

The FRC identified an area of good practice for the BDO grade 4 file.

Overview

In respect of the financial statements work, whilst it is hard to identify a pattern from only two reviews, the key issue and focus is on achieving consistency in high quality, and that the two grade-driver findings for the grade 4 file primarily related to documentation of assessments for final stage considerations.

For the VfM file, the FRC highlighted significant weaknesses in the audit team's documentation, archiving and in its engagement with the FRC/AQR as a regulator. Further detail is included within the MLA:AQI report.

Our Response

The firm's Leadership Team, Audit Executive and Public Sector team have noted the disappointing findings from the AQR reviews of the financial statements and VfM conclusion for one major local audit. On determining the issues underlying these findings we immediately undertook robust actions and we are carrying out further actions, consistent with our overall objective of delivering high quality audits.

Root cause analysis (RCA)

The RCA in respect of the financial statements grade 4 file commenced in early November.

The VfM file findings prompted immediate action at the point that issues were identified, and also a thorough RCA exercise in summer 2022.

The reason that the individual was able to change the working papers post finalisation was because the file had not been archived. The root cause of the files above not being archived was due to the fact that the policy in place at the time did not explicitly refer to archiving of VfM files. That policy was changed to be in place for all VfM arrangement assessments for periods beginning on or after 31 March 2022 (and also to 2020/21 audits for local government). To be clear there has always been a policy in place to archive all financial statement audit engagements.

AQR results 2021/22- Audit quality plan

Driving audit quality - our strategic priority

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- Appendices contents
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - AQR results 2021/22

Audit Quality Plan

Our AQP is underpinned by seven key ‘building blocks’ to support consistent high quality audits. These are reinforced by our four audit quality risk areas (four ‘Big Rocks’) which form key focus areas for audit quality action plans to drive consistent high quality. Our strategic priorities within the AQP are controlled growth, investment in central audit quality support infrastructure, enhancements to methodologies and guidance and fostering a culture of challenge and scepticism.

Building Blocks of Audit Quality

The building blocks to sustain audit quality are the themes identified by the Audit Executive as being areas which are critical to achieving our commitment to consistent high quality audits.





Culture of challenge

The right work by the right people at the right time	Resource led responsible & sustainable growth	Central audit quality support	Highly effective training and development	Committed to technology and digital innovation	Focus on horizon scanning
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Continuous improvement

4 Big Rocks

When not audited robustly the Big Rocks pose the most significant threat of corporate failure and reputational damage to BDO.

01 Audit of revenue 	01 Effective challenge of management 
03 Going concern and viability 	03 Detecting material fraud 

AQR results 2021/22- An Overview

Summary of the key elements of our response to firm-wide findings

- Table Of Contents
- Introduction
- Executive summary
- Audit scope and objectives
- Audit scope entities
- Overview of risks
- Matters for further discussion
- Understanding IT environment
- **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - **AQR results 2021/22**

In response to the FRC's AQR findings at a firm-wide level, we have taken the following actions:

Firm-wide

Audit Quality Initiatives:

- Undertaken a full review of and enhanced our AQP
- Invested in resourcing, increasing the size and capability of our Technical Team and central support functions, with £8m allocated to fund this
- Strengthened formality of oversight - Head of Audit Quality reports progress against the AQP and we have revised our executive and governance bodies
- Emphasised our commitment to highly controlled growth with 5 Year National Audit Stream Revenue and Resourcing Plans, with central monitoring. To support this, we have implemented a critical analysis of the firm's existing a portfolio and established a new tender approval platform to control the volume and shape of our portfolio growth
- Implemented enhanced portfolio review procedures, including review of all public interest audits with targeted allocation of central audit quality support
- Continued to reform the performance review process for our people to strengthen the linkage between audit quality behaviours, recognition and reward.

Monitoring - Internal quality monitoring:

- Review of internal quality assurance review process conducted by the Audit Executive to enhance internal quality assurance monitoring
- Updated guidance for reviews of high risk and complex areas as part of those internal quality assurance reviews
- We have commenced a review of AQR inspection findings and resultant gradings in respect of PIE audits to evaluate whether the difference in results between the external inspection population and wider internal inspection population indicates further revisions to enhance the effectiveness of the AQR process are required. Additional root cause analysis will be undertaken as necessary following conclusion of the initial review.

Root Cause Analysis ("RCA") process:

- Undertaken a review of the RCA function, including enhancements to the framework for identifying casual factor themes and reporting to drive audit quality action plans in the AQP.
- Recruited a partner to lead the RCA function, together with investment in dedicated resourcing.
- Monthly reporting on RCA findings to the Audit Executive and Leadership Team.

Engagement Performance - EQCR, consultations and audit documentation:

- Review of the EQCR function has been undertaken considering the allocation, training and performance thereof and key proposals have been approved by the Audit Executive which are to be implemented in FY23
- We will implement controls to ensure that report release dates are recorded accurately and that there are no completed engagements without a report release date being entered in the audit tool.

Implementation of the FRC's Revised Ethical Standard (2019):

- Enhanced procedures regarding documentation of Objective Reasonably and Informed Third Party (ORITP) test
- Annual ethics training included dedicated module addressing application of the ORITP test
- Enhanced guidance for network firms and non-network firms involved as component auditors providing minimum expected procedures
- Training sessions delivered to the audit practice.

Audit methodology:

- Initiated a comprehensive review of audit methodologies, policies and procedures
- Developed new audit guidance in relation to IFRS 13 in 2021
- A project is underway to enhance and expand this guidance further in 2022 as well as IFRS 9 and the payments process, particularly in their application to audits in the financial services sector
- Recruited an additional banking partner who specialises in IFRS 9.

AQR results 2021/22- An Overview (continued)

Summary of the key elements of our response to engagement level findings

- ▶ Table Of Contents
- ▶ Introduction
- ▶ Executive summary
- ▶ Audit scope and objectives
- ▶ Audit scope entities
- ▶ Overview of risks
- ▶ Matters for further discussion
- ▶ Understanding IT environment
- ▶ **Appendices contents**
 - Council's responsibilities
 - Our responsibilities
 - Communication with you
 - Partner rotation
 - New Accounting Standards
 - Other information
 - Quality Assurance
 - **AQR results 2021/22**

In response to the FRC's AQR findings at an engagement level, we have taken the following actions:

Engagement level

Audit of Revenue:

- ▶ Established a new approach to the audit of revenue based on the revised ISA (UK) 315, detailed end-to-end understanding of revenue streams and the use of 'What Could Go Wrong' analysis for all December 2021 year ends onwards. This was supplemented with sector-based case studies for engagement teams focused on application guidance and best practice examples
- ▶ Reviewed and enhanced audit methodologies and support materials in key areas including the audit of long-term contracts and are continuing to enhance those in the financial services sector
- ▶ The enhanced methodology and requirements for the audit of revenue was supported by a mandatory training day for the audit stream and further embedded through training in the 2022 Summer School
- ▶ Established a Revenue Centre of Excellence, expanded central review teams and methodology support for engagement teams
- ▶ Expanded our Technology Risk Team by c25%, including recruitment of new partners
- ▶ We are developing guidance and materials for each sector to drive detailed understanding of revenue systems and tailored audit strategies, together with a 'controls and digital first' mindset.

Scepticism and challenge in key areas of judgement:

- ▶ Embedding the BDO Professional Judgement Framework within our APT tool, practice aids materials and behavioural based coaching, which supports effective challenge of management
- ▶ We are developing a National Audit People and Culture Program, including 'encouraging and supporting a culture of challenge' as a key pillar
- ▶ Developing guidance and practice aids to support the audit of forecasts and uncertainty which includes impairment, deferred tax assets, going concern and provisions
- ▶ We have engaged external data providers to provide ready access to data and information to support challenge of management forecast assumptions.

Audit work on financial services entities:

- ▶ Recruitment of additional specialist banking and insurance partners and investment in the financial services team
- ▶ Developed new audit guidance in relation to IFRS 13 in 2021
- ▶ A project is underway to enhance and expand this guidance further in 2022 as well as IFRS 9 and the payments process, particularly in their application to audits in the financial services sector
- ▶ Enhancing audit of revenue methodologies and support materials in the financial services sector.

Audit testing over journals in response to the risk of management override of controls:

- ▶ Developed a policy for involvement of forensics at the audit outset to identify fraud risk factors and responses, supported by expansion of the specialist audit support function within our forensics practice
- ▶ Implemented policies that enhance central methodology and specialist support when fraud is identified at an audited entity (auditor or management identified fraud)
- ▶ Delivered in-depth training to IT assurance specialists
- ▶ Summer School 2022 had a focus on the four principle areas of the AQP including detecting material fraud.

Independence assessments:

- ▶ Introduced a new consultation memorandum for consultation with the Ethics Team for PIEs and OEPIs to drive consistent capturing of independence considerations.

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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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