

GOVERNANCE AND AUDIT SCRUTINY COMMITTEE AGENDA

Thursday, 28th October 2021 at 7.15pm

**Council Chamber, Braintree District Council, Causeway House,
Bocking End, Braintree, CM7 9HB**

This meeting is open to the public - This meeting will be available to view via the Council's
webcast and YouTube channel

<http://www.braintree.gov.uk>

<http://www.braintree.gov.uk/youtube>

**Members of the Governance and Audit Scrutiny Committee are requested to attend
this meeting to transact the business set out in the Agenda.**

Membership:-

| | |
|--------------------------------------|------------------------------------|
| Councillor P Euesden | Councillor R van Dulken (Chairman) |
| Councillor D Hume | Councillor T Walsh |
| Councillor H Johnson (Vice Chairman) | Councillor D White |
| Councillor D Mann | Councillor Mrs L Walters |
| Councillor Miss V Santomauro | |

Members unable to attend the meeting are requested to forward their apologies for absence
to the Governance and Members Team on 01376 552525 or email
governance@braintree.gov.uk by 3pm on the day of the meeting.

A WRIGHT
Chief Executive

INFORMATION FOR MEMBER – DECLARATIONS OF MEMBERS' INTERESTS

Declaration of Disclosable Pecuniary Interests (DPI), Other Pecuniary Interests (OPI) or Non-Pecuniary Interests (NPI).

Any Member with a DPI, OPI or NPI must declare the nature of their interest in accordance with the Code of Conduct. Members must not participate in any discussion of the matter in which they have declared a DPI or OPI or participate in any vote, or further vote, taken on the matter at the meeting. In addition, the Member must withdraw from the Chamber where the meeting considering the business is being held unless the Member has received a dispensation from the Monitoring Officer.

Public Question Time – Registration and Speaking:

The Agenda allows for a period of up to 30 minutes for Public Question Time.

Members of the public wishing to participate are requested to register by contacting the Governance and Members Team on 01376 552525 or email governance@braintree.gov.uk by midday on the second working day before the day of the Committee meeting. For example, if the Committee meeting is due to be held on a Tuesday, the registration deadline is midday on Friday, (where there is a bank holiday Monday you will need to register by midday on the previous Thursday).

The Council reserves the right to decline any requests to register for Public Question Time if they are received after the registration deadline.

All questions or statements should be concise and should be able to be read within 3 minutes allotted for each question/statement.

The Chairman of the Committee has discretion to extend the time allocated for public question time and to amend the order in which questions/statements are presented to the Committee.

Public Attendance at Meetings:

Public attendance is welcomed but is subject to restrictions due to the Council's arrangements for keeping Causeway House COVID secure and visitors' safe.

Public attendance is limited and will be on first come first served basis with priority given to Public Registered Speakers. In order to maintain safe distances, the Council may have to refuse entry to members of the public. The Public will not be able to sit in the Council Chamber, but will be permitted to observe the meeting from a public gallery through a large screen. Alternatively, the Council meetings are webcast and are available via the Council's YouTube Channel and can be viewed by the public as a live broadcast or as a recording following the meeting.

Public speakers and public attendees are required to attend on their own, and where possible only one representative of any community group, family household or Company should attend. Members of the public intending to come to Causeway House to observe a meeting are recommended to watch the meeting via the webcast or to contact the Governance and Members team to reserve a seat within the public gallery.

Health and Safety/COVID:

Causeway House is a Covid secure building and arrangements are in place to ensure that all visitors are kept safe. Visitors are requested to follow all instructions displayed at Causeway House or given by Officers during the course of their attendance. All visitors will be required to wear a mask or face covering, unless an exemption applies.

Anyone attending meetings are asked to make themselves aware of the nearest available fire exit. In the event of an alarm you must evacuate the building immediately and follow all instructions provided by staff. You will be directed to the nearest designated assembly point until it is safe to return to the building.

Documents: Agendas, Reports, Minutes and Public Question Time questions and statements can be accessed via www.braintree.gov.uk

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For further information on how the Council processes data, please see the Council's Privacy Policy. https://www.braintree.gov.uk/info/200136/access_to_information/376/privacy_policy

Mobile Phones:

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Webcast and Audio Recording:

Please note that this meeting will be webcast . You can view webcasts for up to 6 months after the meeting using this link: <http://braintree.public-i.tv/core/portal/home>. The Meeting will also be broadcast via the Council's YouTube Channel.

Comments and Suggestions:

We welcome comments to make our services as efficient and effective as possible. If you have any suggestions regarding the meeting you have attended, you can send these to governance@braintree.gov.uk

| PUBLIC SESSION | Page |
|---|------------------|
| 1 Apologies for Absence | |
| 2 Declaration of Interests - Scrutiny Committee | |
| 1. To declare the existence and nature of any interests relating to items on the agenda having regard to the Code of Conduct for Members and having taken appropriate advice (where necessary) before the meeting. | |
| 2. To declare the existence and nature of any instruction given by or on behalf of a political group to any Councillor who is a member of that group as to how that Councillor shall speak or vote on any matter before the Committee or the application or threat to apply any sanction by the group in respect of that Councillor should he/she speak or vote on any particular matter. | |
| 3 Minutes of the Previous Meeting | |
| To approve as a correct record the minutes of the meeting of the Governance and Audit Scrutiny Committee held on 22 nd July 2021 (copy previously circulated). | |
| 4 Public Question Time (See paragraph above) | |
| 5 Key Financial Indicators as at 30th September 2021 | 5 - 11 |
| 6 Internal Audit Update, Including Progress Against 2021-22 Internal Audit Plan | 12 - 21 |
| 7 To receive the External Audit Plan 2020-21 | 22 - 54 |
| 8 To approve the Statement of Accounts for the Financial Year 2019/20 | 55 -121 |
| 9 To receive the Treasury Management Mid-Year Report 2021-22 | 122 - 132 |
| 10 Monitoring Officer Annual Report | 133 - 136 |
| 11 Urgent Business - Public Session | |
| To consider any matter which, in the opinion of the Chairman, should be considered in public by reason of special circumstances (to be specified) as a matter of urgency. | |

| | |
|---|-------------------------------------|
| Report Title: To receive a suite of the Council's Key Financial Indicators as at 30 th September 2021 | |
| Report to: Governance and Audit Scrutiny Committee | |
| Date: 28 th October 2021 | For: Decision |
| Key Decision: No. | Decision Planner Ref No: N/A |
| Report Presented by: Phil Myers, Head of Finance | |
| Enquiries to: Phil Myers, Head of Finance (phil.myers@braintree.gov.uk) | |

1. Purpose of the Report

- 1.1 To receive a suite of the key financial indicators of the Council on performance in the current financial year to 30th September 2021. To evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues as and when they may arise.

2. Recommendations

- 2.1 Members are asked to accept the report of the Key Financial Indicators as at 30th September 2021.

3. Summary of Issues

- 3.1 The attached schedule (Appendix A) of key financial indicators provides details of performance recorded for the financial year to 30th September 2021.
- 3.2 Commentary:
- 3.2.1 The net General Fund revenue budget for the year is £15.432m. The anticipated position as at 30th September was for a net expenditure of £6.180m, the actual net expenditure recorded was £6.165m, representing a small positive variance of £15,000.
- 3.2.2 Assessments of the financial impact of Covid on the Council continue to be requested on a monthly basis by the Government. The latest return (16th) was submitted on 24th September, and for this it was estimated that for the period up to the end of August was additional expenditure of £0.361m and a reduction in income of £0.526m, with an anticipated impact for the year of additional expenditure of £0.664m and reduced income of £1.142m. Part of the anticipated additional expenditure relates to the financial support being provided by the Council to its leisure management operator, which is partially funded from monies claimed from the National Leisure Recovery Fund. The Government has provided £0.686m of Emergency funding to the Council for this year, £0.177m of Contain Outbreak funding and is also providing a

compensation scheme for losses from sales, fees and charges for the first three months of the financial year. An application for compensation under the scheme was due to be submitted by 22nd October.

- 3.2.3 Accountants are currently finalising work with service managers on the second quarter (end of September) information to further assess the impact of the COVID-19 pandemic and to predict the Council's financial outturn position for the year. The outcome of this will be included in the Quarterly Performance report which will be received by the Cabinet on 29th November 2021, and will be used to further inform the budget setting process for 2022/23.
- 3.2.4 The total budget for Salaries for the year is £19.587m. Expenditure on salaries for the year to the end of September was £9.597m. This compares to a profiled budget of £9.700m. The positive variance of £0.103m is after allowing for £0.150m of the Efficiency Factor (£0.300m for the year).
- 3.2.5 The budget for the year for rental income received from commercial and industrial properties is £2.905m, which consists of 221 leases, and is net of an allowance for voids of £52,380. The actual value of rents invoiced to the end of September was £2.274m against a profiled budget of £2.256m. The total number of properties occupied at 30th September was 215, with 6 units vacant. Included within the vacant units were 3 new units that have recently become available for letting after reconfiguration of space at the Business Enterprise Centre on Springwood Drive as new conference facilities are being provided in the I-Construct Innovation Centre. The letting of one of these new units and the remaining 3 vacant units were pending legal completion.
- 3.2.6 The updated capital programme for the year is £37.893m, which includes estimated expenditure on: Manor Street Development of £13.024m; Enterprise Centre at Horizon 120 of £11.054m; Horizon 120 infrastructure works of £4.25m; I-Construct of £1.506m; and Pedestrianisation of Braintree town centre of £1.078m. Actual expenditure incurred to the end of September was £15.525m.
- 3.2.7 The capital resources plan includes an estimated £17.543m of expected capital receipts in the current financial year. These receipts are projected from a variety of sources: right-to-buy sales and VAT shelter savings under agreements with Eastlight Community Housing; the disposal of apartments at Victoria Square as part of the overall financing for this project; the sale of serviced land plots at Horizon 120 as the means of financing this project; and the sale of various plots of land held by the Council identified as sites for potential housing development. The actual value and timing of receipts can vary as they are subject to external demands and interest, commercial arrangements, and in some cases planning consents. The amount of capital receipts accrued to the end of September is £17.137m, including £1.732m for a sale of land originally anticipated in the previous financial year. The total amount of receipts also includes £5.329m which is conditional and will only become available for financing once the Council has satisfied all conditions.

Receipts from right-to-buy sales completed in-year are as advised by Eastlight but the cash amount is not paid until after the financial year-end.

- 3.2.8 The total Council Tax collectable debit for the year is £102.27m. The collection rate as at the end of September is 57.48% (£58.76m collected), which compares to a rate of 57.63% for the same period last year.
- 3.2.9 The total Business Rates (National Non-Domestic Rates) collectable debit for the year is £37.37m. The collection rate as at the end of September is 51.57% (£19.77m collected), which compares to a rate of 54.90% for the same period last year. The amount collectable is lower than in pre-pandemic years due to the continuation of the Government's Expanded Retail and Nursery rate relief schemes having been awarded with a total current value of £8.245m. The collection rate for 2021/22 has been impacted by the requirement to rebill accounts part way through the year to reflect the reduction in the expanded reliefs from 100% for the period April to June, down to 66% for the remainder of the year.
- 3.2.10 A total of 399 write-offs of Council Tax, with a value of £52,347 have been authorised in the year to 30th September: 84 in respect of the current year and 315 in respect of previous financial years.
- 3.2.11 A total of 20 write-offs of Business Rates, with a net value of £17,715, have been authorised in the year to 30th September: 4 in respect of the current year and 16 in respect of previous financial years.
- 3.2.12 The amount of sundry debts owed to the Council, i.e. monies other than for Council Tax and NNDR, was £2.707m, of which £1.509m was in respect of Housing Benefit overpayments. Payment plans are agreed and range from payment within 14 days and payments by instalments throughout the year to plans determined under Regulations (prescribed maximum amount that can be received from a debtor's benefit award).
- 3.2.13 The proportion of supplier payments made within 30 days is 95.77%, which is down on the figure for the previous year of 97.41%. From April 2021, a new integrated purchase order and payment system was introduced which places greater emphasis on the need for services to receipt goods and services received before matched invoices can be paid. This change in processing requirement is expected to take some time to embed across the Authority.
- 3.2.14 The rate of return achieved on investment of the Council's balances and funds in the year to-date is 0.03%. This return was achieved on an average amount invested of £36.77m and relates to monies placed with the Debt Management Office, and Money Market Funds.
- 3.2.15 Dividend received/declared in the year to 30th September is £369,000, an annualised return of 3.88%. The market values of these pooled funds show an unrealised net surplus in the principal sum of £2.288m as at 30th September 2021. The total invested in pooled funds; equity, property and multi-asset funds, was £19m at the end of September. These investments

are placed in the knowledge that their capital values will be subject to volatility but overall their trend has been positive over the medium term (i.e. over a minimum of 3 years).

3.2.16 Detail of the Council's investments of surplus monies, totalling £68.43m, as at 30th September, is provided at Appendix B.

4. Options

4.1 To receive and ask questions as appropriate on the Key Financial Indicators as at 30th September 2021, contained in the appendices to this report.

5. Financial Implications

5.1 There are no financial implications arising from the recommendations set out in this report.

6. Legal Implications

6.1 There are no specific legal implications arising out of this report at this time.

7. Other Implications

7.1 There are no other implications arising out of this report at this time.

8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The content of this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

Appendix A – Key Financial Indicators (including Revenue, Capital and Taxation collection) for the period 1st April 2021 to 30th September 2021.

Appendix B – Treasury Management – Details of the Council’s investments for the period 1st April 2021 to 30th September 2021.

10. Background Papers

None.

APPENDIX A: Key Financial Indicators at 30th September 2021

| | Full Year Budget 2021/22 | Actual 30 Sept 2021 | Profile to 30 Sept 2021 | Variance from Profile | |
|--|--------------------------------|------------------------|-------------------------------|-----------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | % |
| General Fund - Expenditure | | | | | |
| Salaries | 19,582 | 9,597 | 9,700 | -103 | -1.1% |
| Other Controllable Expenditure | 41,468 | 19,330 | 19,295 | 35 | 0.2% |
| General Fund - Income | | | | | |
| Commercial & Industrial Property - Rental Income | -2,905 | -2,274 | -2,256 | -18 | 0.8% |
| Other Controllable Income | -42,713 | -20,488 | -20,559 | 71 | -0.3% |
| General Fund - Net Revenue (Controllable) | 15,432 | 6,165 | 6,180 | -15 | -0.2% |
| Capital Programme | | | | | |
| Capital Expenditure | 37,893 | 15,525 | - | - | - |
| Capital Receipts | 17,543 | 17,137 | - | - | - |

| | Full Year Target | Actual 30 Sept 2021 | Actual 30 Sept 2020 | Variance |
|---|---------------------|------------------------|------------------------|----------|
| Council Tax collection in year - % | 98.30% | 57.48% | 57.63% | -0.15% |
| Council Tax collection - income collected for year - £m | £102.27 | £58.76 | £56.38 | £2.38 |
| Write-offs in year - £'000 | | £10 | £6 | £4 |
| Write-offs in year - number | | 84 | 47 | 37 |
| Write-offs all years £'000 | | £52 | £48 | £4 |
| Write-offs all years - number | | 399 | 341 | 58 |
| Business Rates collection in year - % | 98.60% | 51.57% | 54.90% | -3.33% |
| Business Rates collected for year - £m | £37.37 | £19.77 | £14.56 | £5.21 |
| Write-offs in year - £'000 | | £1 | £5 | -£4 |
| Write-offs in year - number | | 4 | 4 | 0 |
| Write-offs all years - £'000 | | £18 | £20 | -£2 |
| Write-offs all years - number | | 20 | 38 | -18 |
| Creditors - payment of invoices within 30 days of receipt | 99.25% | 95.77% | 97.41% | -1.64% |

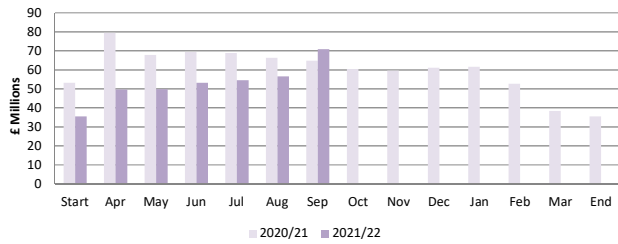
| Debtors - Balance Outstanding | 31-Mar-19 | 31-Mar-20 | 31-Mar-21 | 30-Sep-21 |
|--|--------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| Service Level Agreement charges - principally Tabor Academy and residents of Twin Oaks, Stisted | 190 | 181 | 182 | 181 |
| Capital Projects | - | - | - | - |
| Charges for services provided by: Democratic Services, Training Services, Procurement Services, etc. | 12 | 12 | 109 | 3 |
| Charges for services provided by: ICT, Marketing, Offices, Elections, etc | 43 | 60 | 71 | 149 |
| Development & Environment | 485 | 284 | 420 | 278 |
| Finance | 91 | 92 | 102 | 196 |
| Leisure | 189 | 122 | 2 | - |
| Operations | 953 | 1,076 | 1,312 | 337 |
| Housing | 51 | 65 | 43 | 54 |
| Sub-Total - excluding Hsg. Benefits | 2,014 | 1,892 | 2,241 | 1,198 |
| Housing Benefits | 1,719 | 1,673 | 1,613 | 1,509 |
| Total | 3,733 | 3,565 | 3,854 | 2,707 |
| Profile by Recovery Stage: | | | | |
| Invoice | 2,109 | 1,914 | 2,088 | 1,036 |
| Reminder | 421 | 648 | 791 | 585 |
| Pre-legal | 366 | 104 | 145 | 225 |
| Enforcement Agent | 354 | 328 | 184 | 194 |
| Tracing Agent | - | 3 | 2 | 2 |
| Charging Order | 31 | 30 | 22 | 22 |
| Attachment to Benefits/Earnings | 452 | 538 | 622 | 643 |
| Total | 3,733 | 3,565 | 3,854 | 2,707 |
| Write-offs (debits and credits) in year - value - £000 | £5.1 | £7.7 | £0.6 | £3.4 |
| Write-offs in year - number | 140 | 114 | 141 | 114 |

Progress on achieving Efficiency Savings Targets

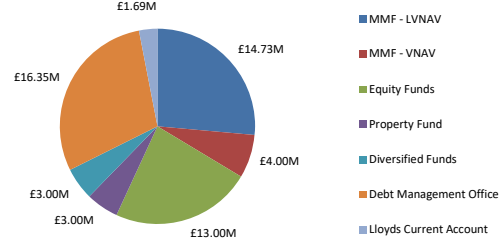
The amount of the Efficiency Savings target included in the budget for 2021/22 is a net amount of £300,000. The underspend on salaries of £103,000, recorded above, is after offsetting £150,000 of the target.

APPENDIX B - Treasury Management Monitor - 30th September 2021

Average Cash Balances Managed

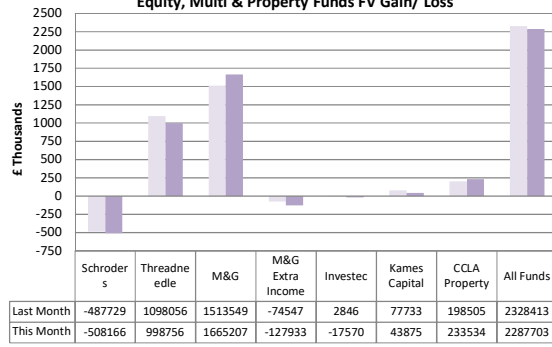


Average Invested to end of Period



| | Investment Activity | | | |
|-----------------------------|---------------------|-------------|--------------------|-------------|
| | This Month Made £m | Sold £m | Cumulative Made £m | Sold £m |
| External Investments | | | | |
| Property Fund | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity Funds | 0.0 | 0.0 | 0.0 | 0.0 |
| Multi Funds | 0.0 | 0.0 | 0.0 | 0.0 |
| MMF - LVNAV | 0.0 | 0.0 | 11.0 | 6.0 |
| MMF - VNAV | 0.0 | 0.0 | 0.0 | 0.0 |
| Sub-Total | 0.0 | 0.0 | 11.0 | 6.0 |
| Deposits - Fixed | | | | |
| UK Bank & Building Soc. | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-UK Banks | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt Mgt Office | 21.0 | 15.0 | 108.5 | 80.0 |
| Local Authorities | 0.0 | 0.0 | 0.0 | 0.0 |
| Sub-Total | 21.0 | 15.0 | 108.5 | 80.0 |
| Lloyds Bank PLC | 1.5 | 0.0 | 0.0 | 0.5 |
| Sub-Total | 1.5 | 0.0 | 0.0 | 0.5 |
| Total | 22.5 | 15.0 | 119.5 | 86.5 |

Equity, Multi & Property Funds FV Gain/ Loss



Commentary

Average sum invested in the month £70.89m (Last year £64.76m)
 Average sum invested for the year to date £55.77m (Last year £69.46m)
 Actual sum invested at the end of the period £68.43m (Last year £60.49m)
 Interest secured on instant access accounts, fixed deposits, and MMFs at the end of the period £5141 a return of 0.03% [Annual Updated Budget £23k]
 Note: 3mth Libid 0.03% 6mth LIBID 0.08%
 Dividends earned (declared) on equity, property and diversified funds to the end of the period £369k [Annual Budget £686k]
 Unrealised gain/ -loss at end of period for equity, property and diversified funds is a net £2288k a change of £-41k from last month

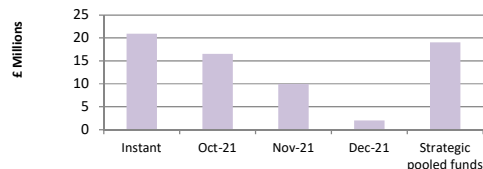
INVESTMENT HOLDINGS AT END OF PERIOD

| COUNTERPARTY | Type | Principal | Start | Maturity | Yield |
|------------------------|----------|-----------|------------|------------|----------|
| DEBT MANAGEMENT OFFICE | FIXED | 4500000 | 09/08/2021 | 18/10/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 3000000 | 31/08/2021 | 19/10/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 1000000 | 02/09/2021 | 18/10/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 2000000 | 02/09/2021 | 27/10/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 2000000 | 02/09/2021 | 22/11/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 2000000 | 02/09/2021 | 24/11/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 6000000 | 07/09/2021 | 07/10/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 6000000 | 07/09/2021 | 09/11/2021 | 0.01% |
| DEBT MANAGEMENT OFFICE | FIXED | 2000000 | 15/09/2021 | 22/12/2021 | 0.01% |
| LLOYDS BANK | CALL A/C | 1930000 | 30/09/2021 | 01/10/2021 | 0.00% |
| DEUTSCHE | MMF | 0 | | | 0.00% |
| GOLDMAN SACHS | MMF | 0 | | | 0.00% |
| CCLA PUBLIC DEPOSIT | MMF | 5000000 | 30/09/2021 | 01/10/2021 | Variable |
| FEDERATED PRIME | MMF | 5000000 | 30/09/2021 | 01/10/2021 | Variable |
| ABERDEEN STANDARD | MMF | 5000000 | 30/09/2021 | 01/10/2021 | Variable |

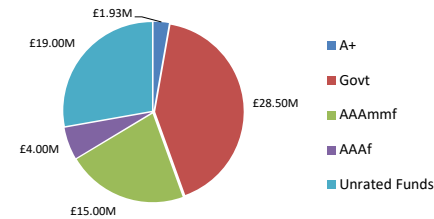
EXTERNAL FUND INVESTMENTS

| | | | | |
|------------------------|----------|---------|--|----------|
| SHRODERS INCOME MAX. | EQUITY | 2500000 | | Variable |
| THREADNEEDLE UK EQUITY | EQUITY | 5000000 | | Variable |
| M&G GLOBAL DIVIDEND | EQUITY | 2500000 | | Variable |
| M&G EXTRA INCOME | EQUITY | 3000000 | | Variable |
| KAMES CAPITAL | MULTI | 2000000 | | Variable |
| INVESTEC | MULTI | 1000000 | | Variable |
| CCLA - LAMIT PROPERTY | PROPERTY | 3000000 | | Variable |
| ROYAL LONDON CASH PLUS | MMF-VNAV | 4000000 | | Variable |

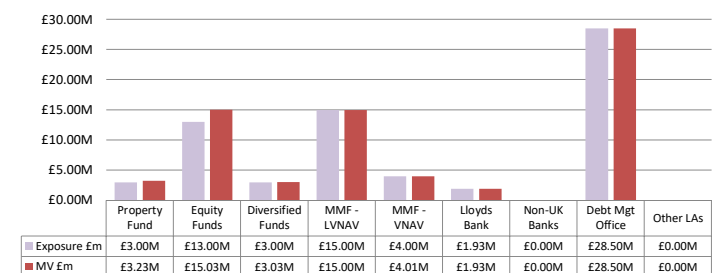
Maturity Profile at end of Period



Credit Rating of Investment Holdings



Counterparty Type at end of Period



| | |
|---|-------------------------------------|
| Report Title: Internal Audit Update, Including Progress Against 2021/22 Internal Audit Plan | |
| Report to: Governance and Audit Scrutiny Committee | |
| Date: 28 th October 2021 | For: Decision |
| Key Decision: No | Decision Planner Ref No: N/A |
| Report Presented by: Angela Mitchell | |
| Enquiries to: Angela Mitchell, Audit, Insurance & Fraud Manager (angmi@braintree.gov.uk) | |

1. Purpose of the Report

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Governance and Audit Scrutiny Committee, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.
- 1.2 The 2021/22 Internal Audit Plan was approved by the Governance and Audit Scrutiny Committee on 22nd July 2021. This report provide Members with an update on the Internal Audit activity, and progress and performance against planned work and any other matters affecting the provision of the Internal Audit Service. This is in accordance with the Governance and Audit Scrutiny Committee role and the requirements of the PSIAS.
- 1.3 The report also provides an update on Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) applications made by the Authority

2. Recommendations

- 2.1 Members note the progress and performance against the 2021/22 Internal Audit Plan.

3. Summary of Issues

3.1 Progress against the 2021/22 Internal Audit Plan

- 3.1.1 The progress against the 2021/22 Internal Audit Plan is detailed in **Appendix 1**.
- 3.1.2 The following audits have been completed since the last progress report to the Governance and Audit Scrutiny Committee (22nd July 2021). **Appendix 2** provides a summary of the outcomes of these audits:
 - BACS System – **Full Assurance**
 - Payroll Shared Service – **Substantial Assurance** (External Source of Assurance)
 - Business Support Grants – **Significant Assurance**

- Disabled Facilities Grants – **Significant Assurance**
- Landlord Safety Checks – **Significant Assurance**
- Commercial Rents – **Full Assurance**
- Local Authority Covid 19 Compliance & Enforcement Grant– **Full Assurance** (unplanned work)

3.1.3 The proportion of planned work completed was affected by the following factors:

- A significant proportion of the Audit Manager's time is spent on Insurance work, and some time also spent on Fraud work. In 2021/22 the insurance related work included the re-tender of three areas of insurance cover which required significant resource input. This tender was unplanned (as all insurance covers were tendered in 2020) but was a response to the former insurer deviating from the Long Term Agreement and imposing significant premium increases
- Additional ad hoc advice and consultancy services have been provided in the areas summarised in Appendix 1.

3.1.4 The Internal Audit Plan is prioritised, and Audits are assigned based on their relative priority with consideration to Auditor experience and auditee preferred timescales, but is also flexible to respond to changing corporate needs. Progress of and any changes to planned work is reported to the Governance and Audit Scrutiny Committee.

3.2 **Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) Applications**

3.2.1 There were no RIPA / IPA applications in 2021/22 to the date of producing this report.

3.3 **Corporate Objectives**

3.3.1 The recommendations set out in this report will help the Council to deliver the following Corporate Objectives:

- The Internal Audit Plan 2021/22 includes work across all Corporate Objectives:
 - A sustainable environment and a great place to live, work and play;
 - A well connected and growing district with high quality homes and infrastructure;
 - A prosperous district that attracts business growth and provides high quality employment opportunities;
 - Residents live well in healthy and resilient communities where residents feel supported;
 - A high performing organisation that delivers excellent and value for money services;
 - Delivering better outcomes for residents and businesses and reducing costs to taxpayers.

4. **Options**

This report invites Members of the Governance and Audit Scrutiny Committee to receive and note the progress against the 2021/22 Internal Audit Plan, additional work performed, and any other matters affecting the Internal Audit service.

5. Financial Implications

There are no financial implications arising from the recommendations set out in this report

6. Legal Implications

There are no specific legal implications arising from this report

7. Other Implications

There are no other implications arising from this report.

8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The Equality Impact Assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

Appendix 1 – Progress Against the 2021/22 Internal Audit Plan

Appendix 2 - Outcome Of Audits Completed Since The Previous Report To Governance Committee (22 July 2021)

10. Background Papers

None.

APPENDIX 1 – PROGRESS AGAINST THE 2021/22 INTERNAL AUDIT PLAN

This Appendix summarises the work completed in respect of the 2021/22 Internal Audit Plan (presented to the Governance and Audit Scrutiny Committee on 22nd July 2021).

| | Audit | Priority | Current Status | Date Report to Governance & Audit Scrutiny |
|---|---|-----------------|--|---|
| 2021/22 Internal Audit Plan – All Audits | | | | |
| 1 | Core Financial Systems – Back to Basic Reviews <ul style="list-style-type: none"> Business Rates Refunds | 1 | Part Completed (re Business Rates Refunds) | 22 July 2021 |
| 2 | Payroll Shared Service | 1 | External Source of Assurance | 28 October 2021 |
| 3 | Managers Self Service | 2 | In progress | |
| 4 | Procurement / P2P E-Procurement System | 2 | In progress | |
| 5 | North Essex Parking Partnership | 2 | In progress | |
| 6 | BACS System | 2 | Completed | 28 October 2021 |
| 7 | Corporate Credit Cards | 2 | In Progress | |
| 8 | Debtors Invoicing | 3 | In Progress | |
| 9 | LCTS Document Verification | 3 | | |
| 10 | Business Support Grants | 1 | Completed | 28 October 2021 |
| 11 | North Essex Economic Board Partnership | 2 | | |
| 12 | European Regional Development Funds | 2 | | |
| 13 | Uniform System Security | 2 | In progress | |
| 14 | Disabled Facilities Grants / Major Housing Grants | 2 | Completed | 28 October 2021 |
| 15 | Landlord Safety Checks | 1 | Completed | 28 October 2021 |
| 16 | Plant & Vehicle Workshop | 2 | | |
| 17 | Unit 4 Fuel System | 2 | | |
| 18 | Commercial Waste | 2 | | |
| 19 | Agency Supply Contract | 2 | | |
| 20 | Safe Recruitment | 2 | | |
| 21 | Pest Control | 3 | | |
| 22 | Affordable Housing & Homelessness | 2 | | |
| 23 | Accuracy of Housing Application Processing | 2 | | |
| 24 | Projects Realisation of Benefits | 2 | | |
| 25 | Commercial Rents | 3 | Completed | 28 October 2021 |
| 26 | Risk Management | 1 | | |
| 27 | Business Resilience | 2 | In Progress | |
| 28 | Information Management | 1 | In Progress (near completion) | |
| 29 | Cyber Security | 1 | | |

| | | | | |
|----|---|---|---------------------------------|--------------|
| 30 | Social Media | 2 | In progress | |
| 31 | Culture & Ethics | 2 | | |
| 32 | Homeworking – Security of Data | 2 | | |
| 33 | IT Inventory | 2 | | |
| 34 | Performance Management | 3 | In progress | |
| 35 | Major Projects – General | 1 | | |
| 36 | Major Project – in Depth Review | 1 | | |
| 37 | Strategic Investment | 2 | | |
| 38 | Climate Change | 2 | In progress | |
| 39 | Annual Governance Statement | 1 | | |
| 40 | Follow Up Limited Assurance Reports: - Contract Management (2019/20) - Manor Street (2019/20) - Housing Application Document Verification (2019/20) - Contract Management – Major Contracts (2020/21) - PCI DSS Compliance (2020/21) | 2 | - - - - - Completed | 22 July 2021 |

ADDITIONAL WORK COMPLETED

Since the last report to the Corporate Governance Group the function has provided ad hoc advice and guidance in a number of areas, including the following. No assurance levels are assigned to this work:

- Review of the **Local Authority Covid 19 Compliance & Enforcement Grant** – we were informed of a requirement for the grant declaration to be signed by the Chief Executive and Chief Internal Auditor, this required work to be performed to ensure grant criteria met (outcome is reported in Appendix 2)
- The service assisted the Illegal Money Lending Team with enquiries into a matter
- The service has assisted with a large quantity of financial appraisals in connection with procurement of contracts
- As a result of the retirement of the former Head of Finance, the service undertook additional administrative support for the Councils Barclaycard arrangements
- Advice was also provided in the following areas:
 - Controls relating to food vouchers
 - Advice regarding DBS checks
 - Recruitment advice
 - Advice on Data Protection requirements
 - Advice on disposal of obsolete equipment
 - Advice on options for prompting and tracking plan changes

APPENDIX 2 – OUTCOME OF AUDITS COMPLETED SINCE THE PREVIOUS REPORT TO GOVERNANCE COMMITTEE (22 July 2021)

Recommendations reflect only High and Medium priority matters raised:

| Audit | Overview of Scope | Summary of Findings | High / Medium Priority Recommendation(s) | Priority | Agreed / Responsible Officer / Action Date |
|--|---|---|--|----------|--|
| BACS System Full Assurance | <ul style="list-style-type: none"> Review BACS system access permissions to ensure they were appropriate to individual roles Ensure | Areas of good practice: <ul style="list-style-type: none"> System access is limited to 17 staff, with 7 different role profiles allocated according to role requirements No role is able to create, authorise and submit a single file on their own (segregation of duties is enforced) | There were no recommendations arising from this review | N/A | N/A |
| Payroll Shared Service Substantial Assurance | An Internal Audit review of the Payroll Service (provided by Braintree District Council) was conducted by Epping Forest District Council Internal Audit staff. The report provides a Substantial assurance over payroll processes, including starters, movers, leavers, overtime claims, and in ensuring segregation of duties. There were no recommendations arising from this report. | | | | |
| Business Support Grants Significant Assurance | <ul style="list-style-type: none"> Claim form properly completed by Business applicants Checks were conducted to ensure validity of applicant Grants were paid to the business account ratepayer | Areas of good practice: <ul style="list-style-type: none"> Grants were paid in accordance with the terms and conditions of grant schemes (and not paid where criteria not met or checks identified potential issues) Applications were verified using various means including the Government Spotlight system (automated checks), LoCTA | <ul style="list-style-type: none"> Conduct post payment checks on sample to ensure business is still trading and entitled to the grant, and grant conditions adhered to | Medium | Recovery & Revenues Manager November 2021 |

| | | | | | |
|---|--|---|--|-----|-----|
| Significant Assurance | <ul style="list-style-type: none"> • Inspections are completed regularly and details recorded • Identified defects are resolved • Council complies with relevant regulations | <p>retained. (There was some delay in inspections as a result of Covid-19 – see recommendation)</p> <ul style="list-style-type: none"> • Works identified during inspections as required is recorded and monitored until completed | permitted by Covid-19 restrictions | | |
| Commercial Rents Full Assurance | <ul style="list-style-type: none"> • Protocols in place for rent deferral • Signed tenancy agreements held • Payments are made in accordance with agreements • Action is taken where payments are not made | <p>Areas of good practice:</p> <ul style="list-style-type: none"> • Agreements were in place for any deferrals offered to tenants, these stated clear conditions for the deferral and payment terms • Payments were made in accordance with with agreements, recovery arrangements were in place should they have been required | There were no recommendations arising from this review | N/A | N/A |
| Local Authority Covid 19 Compliance & Enforcement Grant Full Assurance | <ul style="list-style-type: none"> • Correct funds were received in a timely manner • Grants were fully spent • Grant funding was tracked • Grant funding was correctly used for Covid-19 expenditure | <p>Areas of good practice:</p> <ul style="list-style-type: none"> • The Council received the correct amount of funding within the specified timeframe, and the whole grant was spent • The funding was tracked on the main financial system • Funding was used for Covid related expenditure | There were no recommendations arising from this review | N/A | N/A |
| <p><u>Key:</u></p> <p><i>For the scope of objectives subject to review during the audit:</i></p> <p>Full Assurance <i>Internal controls meet acceptable standards and are consistently applied.</i></p> <p>Significant Assurance <i>Reasonable, but not absolute, assurance that adequate risk management and controls are in place.</i></p> <p>Significant Assurance <i>Significant assurance that the internal control framework meets minimum acceptable standards.</i></p> <p>Significant Assurance <i>Some weaknesses or inconsistent application in control means some risks are not adequately mitigated.</i></p> | | | | | |

Limited Assurance

Internal control framework does not meet minimum acceptable standard.

Weaknesses or inconsistent application of controls means some risks are not mitigated and require significant improvement

No Assurance

The internal control framework does not meet the minimum acceptable standards and no assurance can be given

Updates for Matters Previously Notified to the Governance and Audit Scrutiny Committee (formerly the Corporate Governance Group) / Follow Up Reviews:

2018/19 – Leased Car Audit (Significant Assurance)

- There were 4 medium priority recommendations relating to:
 - Scheme documentation and the clarification of Leased Car criteria, application of approved criteria and transparency over any exceptions applied
 - Enforcement of mileage criteria for eligibility
 - Clarity of arrangements for early termination and recharge of termination payments
 - Arrangements for charging excess mileage

As at 13 October 2021 – we are advised that the recommendations had been implemented but were pending a report to Management Board. The timescale for resolving the amended scheme is pending

2018/19 – Risk Management (Significant Assurance)

- Whilst most recommendations were completed, there are 2 medium priority recommendations outstanding relating to the review and regular update of the risk policy and strategy, and ensuring the updated policy and strategy are accessible to staff

As at 13 October 2021, the Risk Management policy and strategy are pending update (the policy was last reviewed in 2006)

2019/20 – Contract Management (Significant Assurance)

- There was 1 high priority and 3 medium priority recommendations of which the following remain outstanding (*updates as at 13 October 2021 are in italics*):
 - Inclusion of performance measures in contracts to ensure delivery as contracted (medium). – *This work was commenced, pending confirmation of current status*
 - Record learning from Contract Management to apply to future contracts (medium). – *Confirmation of current status is pending*

2019/20 – Housing Application Document Verification (Limited Assurance)

- There were 3 high priority recommendations relating to the checking of original documents, certifying copies, and procedures to clarify mechanism for reporting false documents. – *The Covid-19 pandemic created additional challenges for the service, which is exploring additional options for validating applications – the service trialled an Application Checker system, and The IT system was enhanced to enable applicants to upload supporting documents with their applications. In addition Housing staff work to the 'Gateway to Homechoice – Prevention and Detection of Fraud Procedure'. This area will be reviewed again in 2021/22.*

2019/20 – Manor Street (Limited Assurance)

- 1 high priority, 2 medium priority and 1 low priority recommendations – *formal audit follow up review pending (Governance and Audit Scrutiny Members were provided with a an update from the Corporate Director in July 2021)*

2020/21 Audits – Audit follow up work is in progress and will be reported at a later date.

| | |
|---|-------------------------------------|
| Report Title: To receive the External Audit Plan 2020/21 | |
| Report to: Governance and Audit Scrutiny Committee | |
| Date: 28 th October 2021 | For: Decision |
| Key Decision: No | Decision Planner Ref No: N/A |
| Report Presented by: Steve Bladen, Director, BDO LLP | |
| Enquiries to: Phil Myers, Head of Finance (phil.myers@braintree.gov.uk) | |

1. Purpose of the Report

- 1.1 To advise Members of the coverage of the External Audit Plan for 2020/21 and the associated costs of the external audit.

2. Recommendations

- 2.1 To note the External Audit Plan 2020/21 together with the proposed audit fees.

3. Summary of Issues

- 3.1 The External Audit Plan summarises the work that BDO LLP (External Auditors) propose to undertake in respect of the audit of Braintree District Council for the 2020/21 financial year.
- 3.2 The audit objectives are:
- To express an opinion on the Council's financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 and other directions;
 - To 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 the knowledge obtained during the audit;
 - To provide an annual commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources;
 - To where necessary: 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; and
 - Prior to the approval of the financial statements, to discuss any significant findings with the Governance and Audit Scrutiny Committee highlighting

any key accounting and audit issues, as well as internal control findings and any other significant matters arising from the audit.

- 3.3 In terms of audit fees the report refers to the current published scale fee of £46,012 set by the Public Sector Audit Appointments Limited's (PSAA); however, BDO are indicating that a request for additional fees will be made to reflect changes in audit scope and depth linked to current audit requirements for property assets and pensions liability valuation work; and to meet the extra reporting requirements on the use of resources under the new National Audit Office Code of Audit Practice which came into effect from 1st April 2020.
- 3.4 A separate fee will be charged for undertaking work to provide the Housing Benefit Subsidy certification based on an estimate of work required for 2020/21. The amount proposed has yet to be confirmed.
- 3.4 Fees may be subject to variation should additional unplanned work be required.
- 3.5 The external audit scrutiny and reporting thereon will help the Council to deliver its corporate objectives of: a high performing organisation that delivers excellent and value for money services; and delivering better outcomes for residents and businesses and reducing costs to taxpayers.

4. Options

- 4.1 To note the External Audit Plan for 2020/21.

5. Financial Implications

- 5.1 The 2020/21 financial outturn and draft Statement of Accounts include a provision of £60,012 for fees in relation to the external audit and grant certification work. Any fee variation ultimately agreed above this amount will impact on the Council's budget position and will have to be met from General Fund balances (or offset against other positive in-year budget variations).

6. Legal Implications

- 6.1 The delay in commencing and completing the audit of the financial statements for 2020/21 means that the Council has been unable to publish an audited Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 (as amended) by the due date of 30th September 2021. A statement to this effect has been published on the Council's website.

7. Other Implications

- 7.1 There are no other implications.

8. Equality and Diversity Implications

- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 8.3 The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

BDO External Audit Plan for 2020/21.

10. Background Papers

None.



Report to the Governance and Audit Scrutiny Committee

BRAINTREE DISTRICT COUNCIL

Audit Planning: year ended 31 March 2021

IDEAS | PEOPLE | TRUST



CONTENTS

| | | |
|---|---------------------------------------|----|
| 1 | Introduction | 3 |
| | Welcome | 3 |
| 2 | Executive summary | 4 |
| | Scope and materiality | 4 |
| | Audit strategy | 5 |
| | Audit risk overview | 6 |
| | Independence and fees | 7 |
| 3 | Audit scope and objectives | 8 |
| | Overview | 8 |
| | BDO team | 9 |
| 4 | Audit risks | 10 |
| | Overview | 10 |
| | Management override of controls | 11 |
| | Revenue (and Expenditure) recognition | 12 |
| | Valuation of non-current assets | 13 |

| | | |
|---|--|----|
| | VALUATION OF PENSION LIABILITY | 14 |
| | Use of Resources | 15 |
| | Going concern | 16 |
| 5 | Other matters | 17 |
| | Other matters requiring further discussion | 17 |
| | Irregularities (including fraud) | 18 |
| | Accounting estimates | 19 |
| | IT general controls | 20 |
| 6 | Independence | 21 |
| | Independence | 21 |
| 7 | Appendices contents | 22 |

| |
|----------------------------|
| CONTENTS |
| Introduction |
| Welcome |
| Executive summary |
| Audit scope and objectives |
| Audit risks |
| Other matters |
| Independence |
| Appendices contents |

We have pleasure in presenting our Audit Planning Report to the Governance and Audit Scrutiny Committee of Braintree District 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.

Our audit of the Council's 2019-20 financial statements is not yet complete. Therefore this is an outline strategy, for the year ending 31 March 2021 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these; together with timetable and the BDO team. We will issue an updated report to the Governance and Audit Scrutiny Committee following the completion of our 2019/20 audit, once we have updated the our risk assessment to reflect the findings from that audit.

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

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

We look forward to discussing this plan with you at the Governance and Audit Scrutiny Committee meeting on 28 October 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.



Aphrodite Lefevre

14 October 2021

This report has been prepared solely for the use of the Governance and Audit Scrutiny Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.



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SCOPE AND MATERIALITY

Executive summary

| |
|----------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Scope and materiality |
| Audit strategy |
| Audit risk overview |
| Independence and fees |
| Audit scope and objectives |
| Audit risks |
| Other matters |
| Independence |
| Appendices contents |

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

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

Audit scope

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

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 Council will be set at 2% (2019/20 2% of gross expenditure) of average gross expenditure for the last three years. Based on the draft financial statements for 2020-21 this has been calculated as £1.469 million. We have set our clearly trivial threshold at £44k.

Although materiality is the judgement of the audit partner, the Governance and Audit Scrutiny 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 risk overview

Independence and fees

Audit scope and objectives

Audit risks

Other matters

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.

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 Council'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, their classification or the planned approach as compared to the prior year.

All other material areas will be subject to a substantive approach.

AUDIT RISK OVERVIEW

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

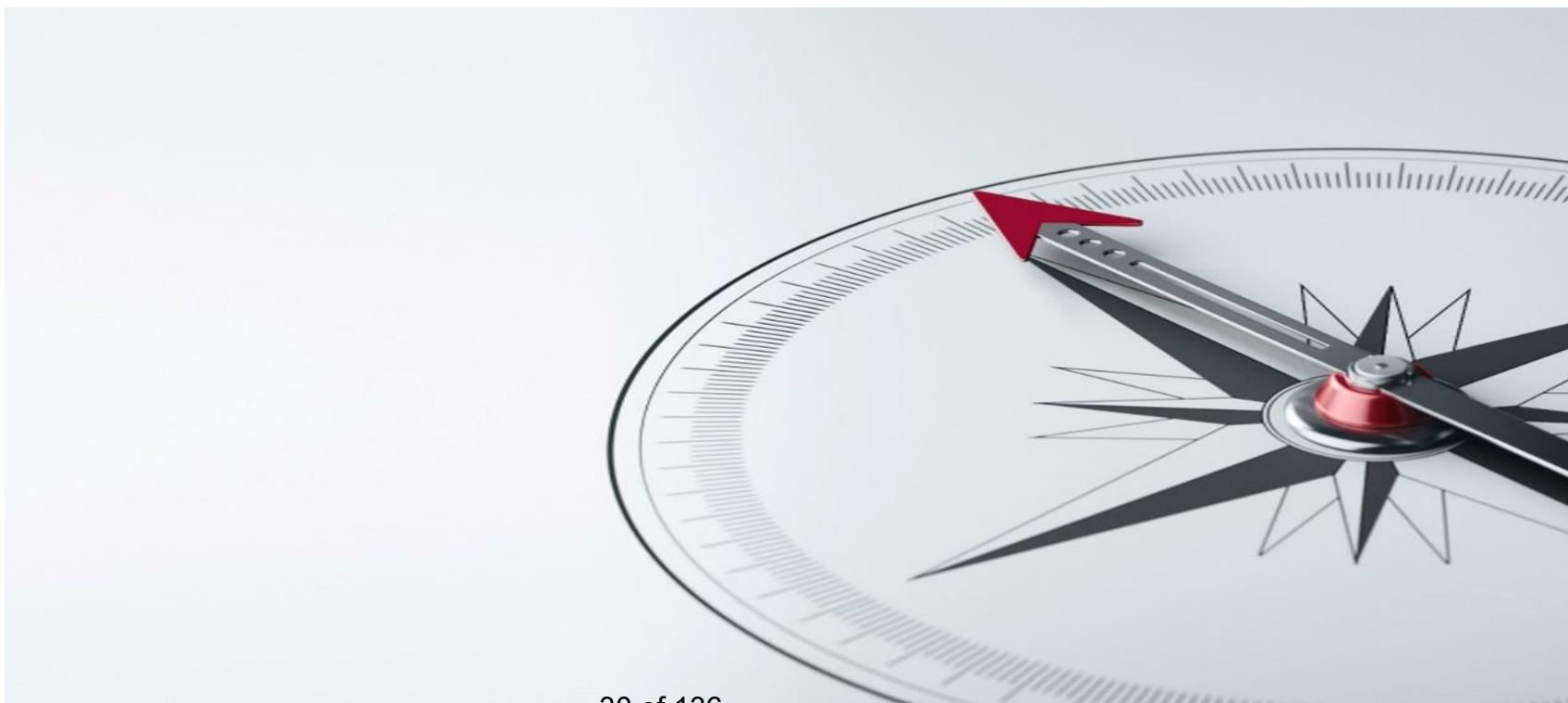
Audit risks

Other matters

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 | High |
| Revenue and expenditure recognition | Significant | Yes | Substantive | Medium |
| Valuation of non-current assets | Significant | No | Substantive | High |
| Valuation of pension liability | Significant | No | Substantive | High |



INDEPENDENCE AND FEES

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Other matters

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 and objective within the meaning of those Standards.

¹Code audit fee

The Code audit fee is the PSAA published scale fee.

²Additional audit fee:

Code work

This represents an estimate of the additional resource time and costs required to test the changes in audit scope linked to current audit requirements for property assets and pensions liabilities. We will discuss these costs with management, before submitting a proposal to increase the fee to PSAA Limited.

Use of Resource

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

³Certification of housing benefit subsidy claim

The planned housing benefit subsidy claim fee is estimated based on work required in 2020/21.

Fees

| | 2021 Planned £ | 2020 Actual £ |
|--|----------------------|---------------------|
| Audit fees ¹ | 46,012 | 46,012 |
| Additional Audit Fee ² | TBC | 29,000 |
| Total audit fee | TBC | 75,012 |
| Non-audit fees | | |
| Housing Benefit Subsidy certification ³ | TBC | 13,600 |
| Total non-audit services fee | TBC | 13,600 |
| Total audit fee | TBC | 88,612 |

OVERVIEW

Audit scope and objectives

| |
|----------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Overview |
| BDO team |
| Audit risks |
| Other matters |
| Independence |
| Appendices contents |

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

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

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

| Reporting | Objectives |
|--|---|
| Auditing standards | We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office. |
| Financial statements | We will express an opinion on the Council financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 and other directions. |
| Statement of Accounts | In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit. |
| WGA | We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements. |
| Additional powers and duties | Where necessary we may be required to: issue 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 Standards and Audit | Prior to the approval of the financial statements, we will discuss our significant findings with the Governance and Audit Scrutiny 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. |

BDO TEAM

Team responsibilities

| |
|----------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Overview |
| BDO team |
| Audit risks |
| Other matters |
| Independence |
| Appendices contents |



Aphrodite Lefevre
Engagement Lead

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As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given.

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

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

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



Shahbaz Khan
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I will work closely with Aphrodite 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 Council are highlighted on a timely basis.

| |
|---------------------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Audit risks |
| Overview |
| Management override of controls |
| Revenue (and Expenditure) recognition |
| Valuation of non-current assets |
| VALUATION OF PENSION LIABILITY |
| Use of Resources |
| Going concern |
| Other matters |
| Independence |
| Appendices contents |

OVERVIEW

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

| Description of risk | Significant risk | Normal risk | Overview of risk |
|--|------------------|-------------|--|
| 1. Management override of controls | | | ISA (UK) 240 presumes that Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. |
| 2. Revenue and expenditure recognition | | | Auditing standards presume that income recognition presents a fraud risk. For the Council we consider that this significant risks manifests itself in the existence (recognition) of grants that are subject to performance conditions before these may be recognised as revenue, and in the cut-off of expenditure. |
| 3. Valuation of non-current assets | | | The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty. |
| 4. Valuation of pension liability | | | The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty. |
| 5. Use of resources | | | The Code of Audit Practice was updated with effect from 1 April 2020 and as a consequence the scope of our value for money work has changed for the year ending 31 March 2021. We are not yet in a position to report risks of significant weakness under the new Code requirements to those charged with governance and will provide an update once our risk assessment has progressed. Further information is provided on page 15. |

MANAGEMENT OVERRIDE OF CONTROLS

| |
|---------------------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Audit risks |
| Overview |
| Management override of controls |
| Revenue (and Expenditure) recognition |
| Valuation of non-current assets |
| VALUATION OF PENSION LIABILITY |
| Use of Resources |
| Going concern |
| Other matters |
| Independence |
| Appendices contents |

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

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Council

Risk detail

- 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 large and unusual 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;
- 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.



REVENUE (AND EXPENDITURE) RECOGNITION

| |
|---------------------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Audit risks |
| Overview |
| Management override of controls |
| Revenue (and Expenditure) recognition |
| Valuation of non-current assets |
| VALUATION OF PENSION LIABILITY |
| Use of Resources |
| Going concern |
| Other matters |
| Independence |
| Appendices contents |

Auditing standards presume that income recognition presents a fraud risk.

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

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

Risk detail

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of investment property income and non-ringfenced grant income.

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

Planned audit approach

In response to this risk we will undertake the following work:

- Test an increased sample of grants included in income to documentation from grant paying bodies and assess whether recognition criteria have been met;
- Test an increased sample of investment property income to documentation including lease agreements, contracts and rent reviews; and
- Test a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

VALUATION OF NON-CURRENT ASSETS

| |
|---------------------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Audit risks |
| Overview |
| Management override of controls |
| Revenue (and Expenditure) recognition |
| Valuation of non-current assets |
| VALUATION OF PENSION LIABILITY |
| Use of Resources |
| Going concern |
| Other matters |
| Independence |
| Appendices contents |

The valuation of non-current assets 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

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.

Valuations of property assets can be complex, and the estimates and judgments made by management are likely to have a significant impact on the value of those assets. We therefore consider there is a significant risk over the valuation of these assets.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the instructions provided to the valuer and assess 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.

VALUATION OF PENSION LIABILITY

| |
|---------------------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Audit risks |
| Overview |
| Management override of controls |
| Revenue (and Expenditure) recognition |
| Valuation of non-current assets |
| VALUATION OF PENSION LIABILITY |
| Use of Resources |
| Going concern |
| Other matters |
| 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

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The Council's pension fund deficit at 31 March 2021 was £54 million (£52 million at 31 March 2020).

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.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise, updated at 31 March 2021 for factors such as mortality rates and expected pay rises.

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 auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data;
- Checking the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the Local Government Pension Scheme, and that any significant changes in membership data since the triennial submission have been communicated to the actuary; and
- Review the steps taken by the Council to assess the impact of the recent volatility in global stock markets on the Council's pension fund liability.

USE OF RESOURCES

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview

Management override of controls

Revenue (and Expenditure)
recognition

Valuation of non-current assets

VALUATION OF PENSION LIABILITY

Use of Resources

Going concern

Other matters

Independence

Appendices contents

New Code of Audit Practice (“Code”)

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

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

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

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

Risk of Significant Weakness

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

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

Pertinent matters from early discussions with management include how the Council plans finances to support the sustainable delivery of services in accordance with its strategic and statutory priorities (Financial Sustainability), how the Council ensures it delivers its role, engages with stakeholders, monitors performance and acts for improvement within significant partnerships (Improving 3Es) and how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency (Governance). We are however not yet in a position to report any risks of significant weakness.

We will update the Governance and Audit Scrutiny Committee on risks of significant weakness and planned work at a subsequent meeting.

GOING CONCERN

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

Directors' responsibilities

It is the Officers' responsibility to make an assessment of the Council's ability to continue as a Going Concern to support the basis of preparation for 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 and covenant compliance 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 Officers' 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; and
- 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 entity's financial performance including forecasting and budgeting processes and the Council's risk assessment process. We will evaluate:

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



| |
|--|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Audit risks |
| Other matters |
| Other matters requiring further discussion |
| Irregularities (including fraud) |
| Accounting estimates |
| IT general controls |
| Independence |
| Appendices contents |

OTHER MATTERS REQUIRING FURTHER DISCUSSION

Fraud

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

We have not been made aware of any actual alleged or suspected incidences of fraud. We request confirmation from the Governance and Audit Scrutiny 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.

Contingencies

We request input from the Governance and Audit Scrutiny Committee on recent claims.

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

Related parties

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

Financial statement disclosures

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

Any other matters

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

IRREGULARITIES (INCLUDING FRAUD)

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Other matters

Other matters requiring further discussion

Irregularities (including fraud)

Accounting estimates

IT general controls

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 Council 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 Council's legal advisers
- agreement of the financial statement disclosures to underlying supporting documentation;
- review of minutes of Council meetings throughout the year and of correspondence with regulatory authorities; and
- 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

Other matters

Other matters requiring further discussion

Irregularities (including fraud)

Accounting estimates

IT general controls

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 entity's accounting estimates, including, when applicable, regulatory frameworks related to prudential supervision;
- identify the need for, and apply, specialized 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, 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; and
- 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

Other matters

Other matters requiring further discussion

Irregularities (including fraud)

Accounting estimates

IT general controls

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.



| |
|----------------------------|
| CONTENTS |
| Introduction |
| Executive summary |
| Audit scope and objectives |
| Audit risks |
| Other matters |
| 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 Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ending 31 March 2021.

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

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

Details of other threats and safeguards applied are given in the appendices.

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

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

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

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 Council 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

CONTENTS

Appendices contents

Officers' responsibilities

Independence

Materiality

Accounting Standards

| | | |
|---|---|----|
| A | Officers' responsibilities | 23 |
| | COUNCIL's responsibilities | 23 |
| | Our responsibilities | 24 |
| | Communication with you | 25 |
| B | Independence | 26 |
| C | Materiality | 27 |
| | Materiality: Definition and application | 27 |
| | Materiality: Definition and application 2 | 28 |
| D | Accounting Standards | 29 |
| | New Accounting Standards, Auditing Standards and Other Financial Reporting Developments | 29 |

| |
|--|
| CONTENTS |
| Appendices contents |
| Officers' responsibilities |
| Independence |
| Materiality |
| Accounting Standards |

COUNCIL’S RESPONSIBILITIES

The Council’s Responsibilities and Reporting

The Council’s Responsibilities and 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 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 2020/21, applicable accounting standards or other direction under the circumstances.

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

Use of resources

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

As part of the material published with its financial statements, the 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

Responsibilities and reporting

CONTENTS

Appendices contents

Officers' responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Accounting Standards

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 Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

Our responsibilities and reporting - use of resources

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

This means that we have regard to relevant guidance issued by the 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 Council and Governance and Audit Scrutiny 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

Appendices contents

Officers' responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Accounting Standards

Those Charged with Governance

References in this report to 'those charged with governance' 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 Governance and Audit Scrutiny Committee.

Communication, Meetings and Feedback

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

Audit Planning Report

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

Internal Controls

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

Audit Completion Report

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

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

Auditor's Annual Report

We will provide an annual commentary on the 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.

PARTNER ROTATION

| |
|-------------------------------------|
| CONTENTS |
| Appendices contents |
| Officers' responsibilities |
| Independence |
| Materiality |
| Accounting Standards |

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 before |
|-------------------------------|--------------------------|-------------------------------|
| Aphrodite Lefevre Director | 2 | 10 |
| Shahbaz Khan Manager | 1 | 10 |

| |
|-------------------------------------|
| CONTENTS |
| Appendices contents |
| Officers' responsibilities |
| Independence |
| Materiality |
| Accounting Standards |

MATERIALITY: DEFINITION AND APPLICATION

Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Compliance with loan covenants
- Instances when greater precision is required (e.g. Directors' emoluments and related party transactions).

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

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Council, 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 Council 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 2

CONTENTS

Appendices contents

Officers' responsibilities

Independence

Materiality

Materiality: Definition and application 2

Accounting Standards



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 Governance and Audit Scrutiny 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 |
| Appendices contents |
| Officers' responsibilities |
| Independence |
| Materiality |
| Accounting Standards |

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 |
| Amendments to IFRS 3 <i>Definition of a business</i> | | ● | | | | ● |
| 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 | | | ● | | ● | |

FOR MORE INFORMATION:

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

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Agenda Item: 8

| | |
|---|-------------------------------------|
| Report Title: To approve the Statement of Accounts for the Financial Year 2019/20 | |
| Report to: Governance and Audit Scrutiny Committee | |
| Date: 28 th October 2021 | For: Decision |
| Key Decision: No | Decision Planner Ref No: N/A |
| Report Presented by: Phil Myers, Head of Finance Steve Bladen, Director, BDO LLP | |
| Enquiries to: Phil Myers, Head of Finance (phimy@braintree.gov.uk) | |

1. Purpose of the Report

- 1.1 To approve the Statement of Accounts for the financial year 2019/20, having due regard to the External Auditor's Audit Completion Report.

2. Recommendations

- 2.1 To receive and note the External Auditor's Audit Completion Report on the 2019/20 Accounts.
- 2.2 To approve certification of the Letter of Representation by the Corporate Director (Finance).
- 2.3 To approve the Council's Statement of Accounts for the financial year 2019/20, subject to any changes that may be necessary once the audit has been completed and a final Audit Completion Report has been issued.
- 2.4 To delegate to the Chair of the Governance and Audit Scrutiny Committee to approve any final changes to the published audited Statement of Accounts 2019/20.

3. Summary of Issues

- 3.1 A draft set of Statement of Accounts were originally signed on 30th June 2020, by Chris Fleetham, Corporate Director as representing a "true and fair view" of the Council's financial position at the reporting date, and of its income and expenditure for the year ended 31 March 2020.
- 3.2 The accounts were made available for public inspection between 17th August and 28th September 2020. There were no requests received to inspect the accounts.
- 3.3 The Corporate Director (Finance) certified a revised Statement of Accounts dated 30th November 2020, which are published on the Council's website. Whilst still draft, these accounts included changes that had been agreed with

the External Auditor based on the audit work that had been completed at that time.

- 3.4 The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is produced by the Chartered Institute of Public Finance and Accountancy (the CIPFA Code).
- 3.5 The CIPFA Code is based on International Financial Reporting Standards (IFRS), with adjustments allowed where the impact of applying IFRS is inconsistent with the statutory requirements for credits and debits that have to be taken into account when calculating the movement on the General Fund balance.
- 3.6 There were no significant changes to the accounting requirements under the CIPFA Code for 2019/20.
- 3.7 The Council's External Auditor, BDO LLP (BDO), commenced their final audit of the accounts on 6th July 2020; however, like many authorities, completion of the audit has been significantly delayed.
- 3.8 The Audit Completion Report is attached as an **Appendix** to this report.
- 3.9 BDO have indicated in their report that they anticipate issuing an unmodified opinion on the financial statements.
- 3.10 An emphasis of matter will be included in the opinion relating to the valuation of property, plant and equipment and investment property due to a material uncertainty included in the valuation report issued by the Council's valuer. This issue is not unique to the Council and reflects the general advice given to professional valuers by the Royal Institute of Chartered Surveyors (RICS) for property valuations undertaken during the Covid-19 pandemic.
- 3.11 The Audit Completion Report highlights three unadjusted errors as explained in pages 23 to 25 of that report. It is not the intention to adjust for these errors in the final published accounts as the amounts concerned are considered immaterial to the accounts as a whole and there is no overall impact on the General Fund balances.
- 3.12 BDO are proposing to issue an "except for" use of resources conclusion due to the issues identified in relation to the Manor Street development. The reasons for this are set out in more detail on pages 35 to 37 of the Audit Completion Report, and reflect those matters that were previously considered by the Governance and Audit Scrutiny Committee at the meeting held on 22nd July 2021. At that meeting, Members were advised by the Corporate Director of Growth of the Action Plan that had been implemented to address issues identified in an independent report commissioned by the Authority.
- 3.13 BDO request that the Council provide a Letter of Representation to be signed by the Corporate in the form set out on pages 59 to 61 of the Audit Completion Report.

- 3.14 The recommendations set out in this report demonstrate that the Council delivers against its Corporate Objective of being a high performing organisation that delivers excellent and value for money services, on the basis of the findings of the external auditor on the financial statements and overall arrangements for use of resources.
- 3.15 A fee summary is provided on page 41 of the Audit Completion Report. This shows a proposed increase in audit fees of £29,000 from the £46,012 that was originally planned. The proposed fee increase will be discussed further with management before a formal request is made by BDO to the Public Sector Audit Appointments Limited (PSAA). In making a determination, the PSAA should take into account the views of the Council.

4. Options

- 4.1 To receive and ask questions of BDO on their audit of the accounts and Audit Completion Report.
- 4.2 To consider and approve the certification of the Letter of Representation.
- 4.3 To ask any questions on the published Statement of Accounts 2019/20.
- 4.4 To approve the Statement of Accounts 2019/20, subject to any changes that are agreed between the Chair of the Governance and Audit Scrutiny Committee, after consultation with the Corporate Director (Finance), and the External Auditor.

5. Financial Implications

- 5.1 There are no new financial implications. The financial outturn for 2019/20, including the movement on General Fund balances, was included in the Fourth Quarter and Annual Performance Management Report for 2019/20, which was reported to Cabinet on 13th July 2020. The position reported at that time has not changed as a result of the audit of the accounts.
- 5.2 There is a proposed increase in audit fees charged for the year of £29,000 with a further £1,100 additional charge on work undertaken in relation to the Housing Benefit subsidy claim. Subject to the outcome of a review by both management and the Public Sector Audit Appointments Limited (PSAA) of the proposed scale fee increase, the additional costs will need to be reflected in the current year's outturn budget position.

6. Legal Implications

- 6.1 The CIPFA Code constitutes 'proper accounting practice' under the terms of Section 21(2) of the Local Government Act 2003.
- 6.2 The requirement for formal approval of the Statement of Accounts is contained in the Accounts and Audit Regulations 2015 (as amended). The Regulations were amended for 2019/20 in the wake of the Covid pandemic and the impact that this would have on local authorities' resources and priorities. The changes meant that the latest date by which the draft accounts

were to be made available for public inspection was moved from 1st June to 1st September 2020; and the publication date for the audited financial statements (or a notice published as to why this date could not be met) changed from 30th September to 30th November 2020.

- 6.3 In accordance with the Regulations, a notice was published on the Council's website advising of the delay to the completion of the audit which prevented publication of the audited statements by the due date.

7. Other Implications

- 7.1 The delay in completing the 2019/20 audit has contributed towards the delay in the start of the audit of the 2020/21 Statement of Accounts.

8. Equality and Diversity Implications


- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 8.3 The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

- 9.1 BDO Audit Completion Report.

10. Background Papers

- 10.1 Braintree District Council Statement of Accounts 2019/20 which can be found on the Council's website [\[Here\]](#)



Report to the Governance and Audit Scrutiny Committee

BRAINTREE DISTRICT COUNCIL

Audit Completion Report: year ended 31 March 2020

IDEAS | PEOPLE | TRUST



CONTENTS

| | | |
|---|--|----|
| 1 | Introduction | 3 |
| | Welcome | 3 |
| 2 | Executive summary | 4 |
| | Overview | 4 |
| | The numbers | 5 |
| | Other matters | 6 |
| 3 | Financial statements | 7 |
| | Coronavirus | 7 |
| | Coronavirus 2 | 8 |
| | Coronavirus 3 | 9 |
| | Our methodology | 10 |
| | Audit risks overview | 11 |
| | Management override of controls | 12 |
| | Revenue and expenditure recognition | 15 |
| | Valuation of non-current assets | 16 |
| | Valuation of pension liability | 18 |
| | Matters requiring additional consideration | 21 |
| 4 | Audit differences | 22 |
| | Unadjusted audit differences: Summary | 22 |
| | Unadjusted audit differences: Detail | 23 |
| | Unadjusted disclosure omissions and improvements | 26 |
| | Adjusted audit differences: Summary | 27 |
| | Adjusted audit differences: Detail | 28 |

| | | |
|---|--|----|
| | Adjusted disclosure omissions and improvements | 29 |
| 5 | Other reporting matters | 30 |
| | Reporting on other information | 30 |
| | Whole of Government Accounts | 31 |
| 6 | Use of resources | 32 |
| | Overview | 32 |
| | Sustainable finances (use of resources) | 33 |
| | Informed Decision Making (use of resources) | 34 |
| | Follow up of prior year deficiencies | 38 |
| 7 | Audit report | 39 |
| | Overview | 39 |
| 8 | Independence and fees | 40 |
| | Independence | 40 |
| | Fees | 41 |
| 9 | Appendices contents | 42 |

| |
|-------------------------|
| Contents |
| Introduction |
| Welcome |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

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

It summarises the results of the work to date for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Governance and Audit Scrutiny Committee. At the completion stage of the audit it is essential that we engage with the Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Governance and Audit Scrutiny Committee meeting and to receiving your input.

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

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

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

Steve Bladen, Director.

20th October 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Governance and Audit Scrutiny Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

| |
|-------------------------|
| Contents |
| Introduction |
| Executive summary |
| Overview |
| The numbers |
| Other matters |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

This summary provides an overview of the audit matters that we believe are important to the Governance and Audit Scrutiny Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2020.

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



Overview

Our audit field work on the financial statements is substantially complete. To date, no matters have come to our attention that necessitate modification of the audit opinion on the financial statements.

Outstanding matters are listed on page 46 of our report.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

An emphasis of matter will be included in our opinion, referring to the disclosures in the financial statements relating to the material uncertainties in non-current asset valuations and net pension liability valuation, linked to Covid-19. This is not a qualification and is merely highlighting to the reader of the opinion an issue that we consider is key to understanding the financial statements.

We are proposing to issue an except for use of resources conclusion because of issues we identified in relation to the Manor Street development. These are set out in more detail on pages 32 - 37.

THE NUMBERS

Executive summary

| |
|-------------------------|
| Contents |
| Introduction |
| Executive summary |
| Overview |
| The numbers |
| Other matters |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

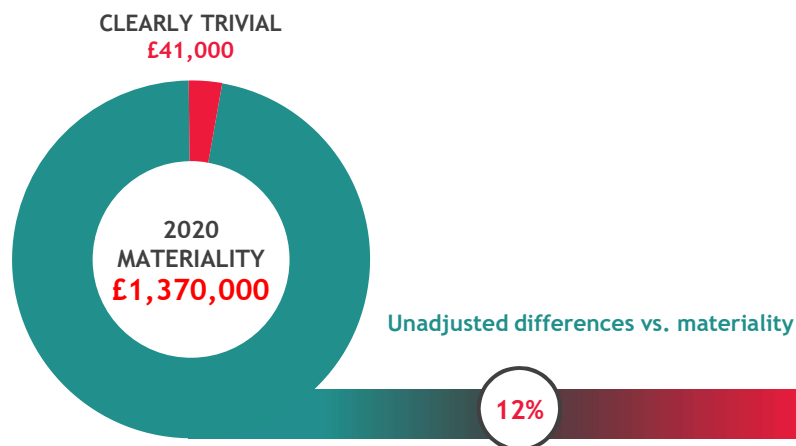
Final materiality

Final materiality was determined based on gross expenditure.

There were no changes to final materiality and triviality from that reported in our Audit Planning Report.

Material misstatements

We did not identify any material misstatements.



Unadjusted audit differences

We identified three unadjusted audit differences that, if posted, would increase the deficit on the provision of services for the year by £169,000. There would be no impact on general fund balances.

Management consider these differences to be immaterial in the context of the financial statements as a whole.

Page 23 of our report provides further information on these items.



OTHER MATTERS

Executive summary

Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Audit differences

Other reporting matters

Use of resources

Audit report

Independence and fees

Appendices contents

Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- The Narrative Report and other information included in the Statement of Accounts is consistent with the financial statements and our knowledge acquired in the course of the audit
- The Annual Governance Statement, as amended to reflect the issues identified in relation to the Manor Street development, is not inconsistent or misleading with other information we are aware of
- The Council is below the audit threshold of £500 million for a full assurance review of the Whole of Government Accounts Data Collection Tool (DCT).

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events
- Letter of Representation.

Independence

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



CORONAVIRUS

The effects on year-end reporting and auditing

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Coronavirus |
| Coronavirus 2 |
| Coronavirus 3 |
| Our methodology |
| Audit risks overview |
| Management override of controls |
| Revenue and expenditure recognition |
| Valuation of non-current assets |
| Valuation of non-current assets |
| Valuation of pension liability |
| Valuation of pension liability |
| Other matters |
| Matters requiring additional consideration |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, management are required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging from management, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern management are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.

- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If officers consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, management's assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of officers' assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

CORONAVIRUS 2

The effects on year-end reporting and auditing

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Coronavirus |
| Coronavirus 2 |
| Coronavirus 3 |
| Our methodology |
| Audit risks overview |
| Management override of controls |
| Revenue and expenditure recognition |
| Valuation of non-current assets |
| Valuation of non-current assets |
| Valuation of pension liability |
| Valuation of pension liability |
| Other matters |
| Matters requiring additional consideration |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

Financial reporting implications

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

Leases:

IFRS 16 Leases will be effective from 1 April 2022 (a further one year deferral).

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Coronavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

CORONAVIRUS 3

The effects on year-end reporting and auditing

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Coronavirus |
| Coronavirus 2 |
| Coronavirus 3 |
| Our methodology |
| Audit risks overview |
| Management override of controls |
| Revenue and expenditure recognition |
| Valuation of non-current assets |
| Valuation of non-current assets |
| Valuation of pension liability |
| Valuation of pension liability |
| Other matters |
| Matters requiring additional consideration |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
 - The valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
 - The valuation and disclosure of financial obligations and any lending covenants
 - Going concern and/or working capital assessment and disclosure
 - Risk disclosures
 - Subsequent event disclosures
- As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the Narrative Report and Annual Governance Statement, in particular where we believe there are risks missing from the detail.

Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
 - Consider the impact on the audited entity
 - Consider alternative ways of working including the use of our technology tools
 - Consider implications for the quality of audit evidence and reporting.
- In undertaking audit work on the valuation of property, particularly specialised property valued using the Depreciated Replacement Cost method and Modern Equivalent Assets assumptions (including alternative site models), auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Council's financial statements and may be referred to by the auditor in their opinion/report.

OUR METHODOLOGY

Summary

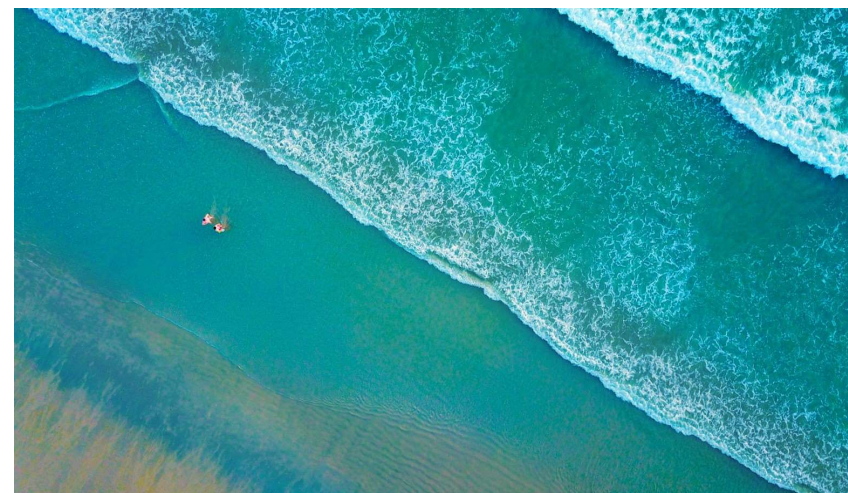
We obtain our audit evidence through a combination of substantive testing, systems and compliance testing.

We planned our audit using different testing methodology depending on the area being audited. Our testing can either be substantive where we directly verify items in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet or assurance is obtained based on systems and compliance testing.

We set out here how we have obtained our audit assurance for the year ended 31 March 2020 for categories of the Balance Sheet. We also include a comparative to the approach undertaken in the prior year.

Audit methodology used

| Item | 2019/20 | 2018/19 |
|---------------------------------|-------------|-------------|
| Housing Benefit expenditure | Combination | Combination |
| All other areas of the accounts | Substantive | Substantive |




AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 16 April 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

| Audit Risk | Risk Rating | Significant Management Judgement Involved | Use of Experts Required | Error Identified | Control Findings to be reported | Discussion points / Letter of Representation |
|-------------------------------------|-------------|---|-------------------------|------------------|---------------------------------|--|
| Management override of controls | Significant | Yes | No | No | No | No |
| Revenue and expenditure recognition | Significant | Yes | No | No | No | No |
| Valuation of non-current assets | Significant | Yes | Yes | Yes | No | Yes |
| Valuation of pension liability | Significant | Yes | Yes | No | No | Yes |



 Areas requiring your attention

Contents

Introduction

Executive summary

Financial statements

Coronavirus

Coronavirus 2

Coronavirus 3

Our methodology

Audit risks overview

Management override of controls

Revenue and expenditure recognition

Valuation of non-current assets

Valuation of non-current assets

Valuation of pension liability

Valuation of pension liability

Other matters

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Audit report

Independence and fees

Appendices contents

MANAGEMENT OVERRIDE OF CONTROLS

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Coronavirus |
| Coronavirus 2 |
| Coronavirus 3 |
| Our methodology |
| Audit risks overview |
| Management override of controls |
| Revenue and expenditure recognition |
| Valuation of non-current assets |
| Valuation of non-current assets |
| Valuation of pension liability |
| Valuation of pension liability |
| Other matters |
| Matters requiring additional consideration |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

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

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

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Evaluated any significant transactions that appear to be outside the normal course of business, or that otherwise appear unusual; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

In considering how the risk of management override may present itself, we considered the inappropriate capitalisation of revenue expenditure to be a key risk. To address this risk we:

- Sample tested additions to non-current assets and investment property to ensure they have been classified correctly; and

- Tested journals relating to the acquisition of non-current assets and investment property.

Results and conclusion

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions from our work, including that on journals, which we consider to be indicative of fraud or indicate potential management override of controls.

We have not found any transactions outside the normal course of business in our work.

Unadjusted audit differences have not shown indications of bias or deliberate misstatement.

Our review of additions to investment property and non current assets did not identify any inappropriate capitalisation.

MANAGEMENT OVERRIDE OF CONTROLS

Significant estimates and judgements

Non-domestic rates appeals provision

Overview and discussion

The Council recognises a provision for business rate appeals of £1.672 million, with the total provision for the Collection Fund being £4.181 million. The Council used an external management expert to calculate the provision, based on outstanding records provided by the Valuation Office.

As part of our audit procedures, we obtained and tested the updated provision calculation as at March 2020.

No issues have been identified as a result of our testing.

Impact

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higher >



Allowance for non-collection of receivables

Overview and discussion

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

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

We are satisfied that the calculations fall within the reasonable range and are not materially misstated.

Impact

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Contents

Introduction

Executive summary

Financial statements

Coronavirus

Coronavirus 2

Coronavirus 3

Our methodology

Audit risks overview

Management override of controls

Revenue and expenditure recognition

Valuation of non-current assets

Valuation of non-current assets

Valuation of pension liability

Valuation of pension liability

Other matters

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Audit report

Independence and fees

Appendices contents

MANAGEMENT OVERRIDE OF CONTROLS

Significant estimates and judgements - continued

Accruals - £2.734 million

Overview and discussion

The Council recognised accruals of £2.734 million during the year. The Council uses judgements and estimates to calculate the accrual to be recognised for any expenditure relating to the current year for which payment has not been made by the year end.

As part of our audit procedures, we obtained and tested a sample of accruals as at March 2020 and did not identify any unreasonable estimates and no issues have been identified as a result of our testing.



Depreciation - £3.326 million

Overview and discussion

The Council has charged depreciation in line with its accounting policy and assessment of assets useful lives.

We have tested a sample of depreciation to ensure the calculation is correct and the useful lives are reasonable.

Our testing has not identified any issues.



REVENUE AND EXPENDITURE RECOGNITION

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Coronavirus |
| Coronavirus 2 |
| Coronavirus 3 |
| Our methodology |
| Audit risks overview |
| Management override of controls |
| Revenue and expenditure recognition |
| Valuation of non-current assets |
| Valuation of non-current assets |
| Valuation of pension liability |
| Valuation of pension liability |
| Other matters |
| Matters requiring additional consideration |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

Auditing standards presume that income recognition presents a fraud risk

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

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of grant income where there are conditions attached to recognition of the grant.

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

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of revenue grants included in net cost of services income to documentation from grant paying bodies and check whether recognition criteria have been met;
- Tested an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct accounting period; and
- Tested a sample of manual accruals.

Results and conclusion

We tested an increased sample of revenue grants and confirmed that the appropriate recognition criteria has been met.

We tested a sample of expenditure transactions from either side of the year end to confirm that expenditure has been recorded in the correct period. No issues have been found the recording of expenditure in the correct accounting period.

We tested a sample of manual accruals and did not find any evidence of management bias or inappropriate calculations.

VALUATION OF NON-CURRENT ASSETS

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Coronavirus |
| Coronavirus 2 |
| Coronavirus 3 |
| Our methodology |
| Audit risks overview |
| Management override of controls |
| Revenue and expenditure recognition |
| Valuation of non-current assets |
| Valuation of non-current assets |
| Valuation of pension liability |
| Valuation of pension liability |
| Other matters |
| Matters requiring additional consideration |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

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

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

Risk description

Local authorities are required to ensure that the carrying value of land 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.

At 31 March 2020, the Council held other land and buildings of £57 million, council dwellings of £0.7 million, surplus assets of £7.9 million, and investment property of £37 million.

Valuations of property assets can be complex, and the estimates and judgments made by management are likely to have a significant impact on the value of those assets

We consider there is a significant risk over the valuation of these assets due to the high degree of estimation uncertainty and management judgement.

Work performed

We carried out the following planned audit procedures:

- Considered the adequacy of the work performed by the Council's valuer, including the scope of the work performed;
- Reviewed the valuer's skills and expertise to determine if we can rely on management's expert;
- Reviewed the assumptions used by the valuer;
- Tested source data used by the valuer to supporting documentation (for example, rental agreements / site plans);
- Tested that the basis of valuation for assets valued in year is appropriate;

- Tested movements in the valuation of assets against relevant indices for similar classes of assets, and valuation movements that appear unusual; and
- Confirmed that assets not subject to valuation in 2019/20 have been assessed to ensure their reported value remains materially correct at the balance sheet date.

Results and conclusion

We reviewed and considered the adequacy and scope of work performed by the valuer and their skills and expertise to determine that we could rely on their work and that it was appropriately scoped.

We reviewed the assumptions used by the valuers and confirmed that they are appropriate.

We confirmed that the valuation basis for asset valued in the year is appropriate and in line with the CIPFA Code of Accounting Practice.

We have agreed the source data used by the valuer to appropriate supporting documentation. We noted a number of differences which we have reported as unadjusted errors

We confirmed that the assets that have not had their valuation updated in 2019/20 remained materially correct. Our review identified a difference of £69,000 which has been included as an unadjusted audit difference.

The valuer has reported a material valuation uncertainty as result of the Covid-19 outbreak, we are therefore proposing to add an emphasis of matter in our audit opinion as a result.

VALUATION OF NON-CURRENT ASSETS

Significant estimate - Property Plant and Equipment and Investment Properties

Contents

Introduction

Executive summary

Financial statements

Coronavirus

Coronavirus 2

Coronavirus 3

Our methodology

Audit risks overview

Management override of controls

Revenue and expenditure recognition

Valuation of non-current assets

Valuation of non-current assets

Valuation of pension liability

Valuation of pension liability

Other matters

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Audit report

Independence and fees

Appendices contents

Valuation of land and buildings and Investment properties

Land and buildings used by the council for operational purposes are valued by reference to existing use market values or depreciated replacement cost for specialized assets such as leisure centres. Investment properties are valued by reference to highest and best use market value.

We have benchmarked the valuation movements to land and building price indices for the year produced by Gerald Eve LLP and reviewed the information and assumptions used by the valuers.

Land and buildings (£65.6 million)

We selected a sample of assets from the valuation report and we agreed the data inputs to source documentation including floor plans and leases. We then compared the BCIS (build cost information services) indices used by the valuer as at 1 March for assets valued at DRC to conform that the correct valuers had been used. For assets valued at fair value or existing use we confirmed that the assumptions used by the valuer such as estimated rent were in line with supporting evidence such as rental agreements and floor plans.

Investment property (£37 million)

Investment property valuations have increased in value by £983,000 in 2019/20, an increase of 2.7%. The Councils investment properties comprise a mix of asset types including light industrial/warehousing, office space, and retail units. MSCI Sector Capital (regional) index from the Gerald Eve report suggests an increase of 1.4% for industrial, a decrease of 0.7% for office space and a decrease of 16.4% for retail at the effective date of revaluation of 31 March 2020. We have also used publically available information from Knight Frank and CBRE to inform our considerations given the wide range of movement at 31 March 2020. Due to the differences in the valuation movements this year we have had a higher number of properties falling outside our expectation which has resulted in increased work.

To support the valuations, we agreed a sample of rental amounts and remaining term used in the valuation to the lease and reviewed the data for a sample of properties where the movement in value appeared unusual compared to the general index movement. Satisfactory explanations were received from the valuer with regards to the values that fell outside our expected range.

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Impact of assumptions on the estimate

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VALUATION OF PENSION LIABILITY

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Coronavirus |
| Coronavirus 2 |
| Coronavirus 3 |
| Our methodology |
| Audit risks overview |
| Management override of controls |
| Revenue and expenditure recognition |
| Valuation of non-current assets |
| Valuation of non-current assets |
| Valuation of pension liability |
| Valuation of pension liability |
| Other matters |
| Matters requiring additional consideration |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| 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 | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant control findings to be reported | |
| Letter of representation point | |

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The Council's pension fund liability at 31 March 2020 was £51.7 million.

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.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise, updated at 31 March 2020 for factors such as mortality rates and expected pay rises.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Reviewed the reasonableness of the assumptions used by the actuary (management's expert) for the calculation of the liability against other local government actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- Reviewed the controls in place for providing accurate membership data to the actuary;
- Tested the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the LGPS;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data;
- Checked that any significant changes in membership data have been communicated to the actuary; and
- Reviewed the steps taken by the Council to assess the impact of the recent volatility in global stock markets on the Council's pension fund liability

VALUATION OF PENSION LIABILITY

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Coronavirus |
| Coronavirus 2 |
| Coronavirus 3 |
| Our methodology |
| Audit risks overview |
| Management override of controls |
| Revenue and expenditure recognition |
| Valuation of non-current assets |
| Valuation of non-current assets |
| Valuation of pension liability |
| Valuation of pension liability |
| Other matters |
| Matters requiring additional consideration |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| 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 | |
| Significant management judgement | |
| Use of experts | |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
| Significant control findings to be reported | |
| Letter of representation point | |

Results and conclusion

We agreed the disclosures in the financial statements to the actuarial report obtained from Barnett Waddingham.

We assessed the qualifications of the fund actuary through use of the PwC actuary. We concluded that the actuary is sufficiently qualified to provide the pension fund valuation.

The assumptions on which the Council has based its disclosure are consistent with those used by the actuary, which are in line with the expectations set out in PwC's consulting actuary report. Further details are provided on the following page.

The letter of assurance we requested from the pension fund auditor has provided assurance over membership data, contributions, outturn asset returns and other aspects affecting the actuarial valuation.

One matter arising from the pension fund auditor's review of pension fund investments relates to the Fund's direct property investments, valued at £397.9m. As reported above in respect of the Council's asset valuations, the Fund's valuation of these assets commented that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case, due to uncertainty caused by Covid-19.

The Council has updated its note on assumptions made about the future and other major sources of estimation uncertainty to reflect the material valuation uncertainty related to its net pension fund liability.

We will draw attention to this material uncertainty by way of an emphasis of matter paragraph in the opinion. This is not a qualification and is wholly consistent with the approach taken in other public sector (and commercial) audits where this is relevant.

Representations required

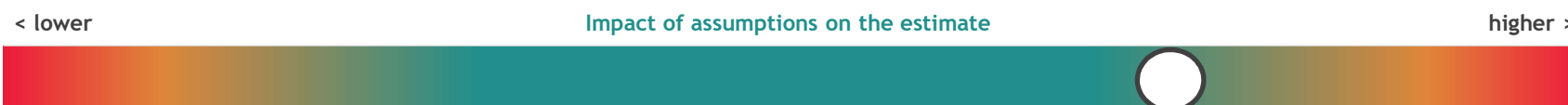
We have sought specific representations over material assumptions used in the valuation of the pension liability including the financial and mortality assumptions.

VALUATION OF PENSION LIABILITY

Significant estimate - LGPS pension liabilities

Scheme Pension Liabilities (£203m)

| | Actual used | Acceptable range | Comments | Discussion |
|--------------------|------------------------------------|-------------------|------------|--|
| Financials: | | | | |
| - RPI increase | 2.75% | 2.80 - 2.65% | Reasonable | <ul style="list-style-type: none"> PwC concluded that, overall, the methodologies used by Barnett Waddingham to establish to assumptions used to calculate the liability are reasonable. We are satisfied that the assumptions used by the Council are consistent with the ranges proposed by the actuary and that the ranges proposed by the actuary are consistent with market expectations. |
| - CPI increase | 1.95% | 1.95 - 1.85% | Reasonable | |
| - Salary increase | 2.95% | 2.95 - 2.85% | Reasonable | |
| - Pension increase | 1.95% | 1.95 - 1.85% | Reasonable | |
| - Discount rate | 2.35% | 2.35% | Reasonable | |
| Commutation: | 50% | 50% | Reasonable | <ul style="list-style-type: none"> We consider that the assumptions and methodology used by the actuary are appropriate and will result in an estimate of the net pension liability which falls within a reasonable range. |
| Mortality: | | | | |
| - Male current | 23.2 years | 22.8 - 24.7 years | Reasonable | |
| - Female current | 25.2 years | 25.2 - 26.2 years | Reasonable | |
| - Male retired | 21.8 years | 21.4 - 23.3 years | Reasonable | |
| - Female retired | 23.7 years | 23.7 - 24.7 years | Reasonable | |
| Mortality gains | CMI 2018 (+1.25% improvement rate) | | Reasonable | |



MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Introduction

Executive summary

Financial statements

Coronavirus

Coronavirus 2

Coronavirus 3

Our methodology

Audit risks overview

Management override of controls

Revenue and expenditure recognition

Valuation of non-current assets

Valuation of non-current assets

Valuation of pension liability

Valuation of pension liability

Other matters

Matters requiring additional consideration

Audit differences

Other reporting matters

Use of resources

Audit report

Independence and fees

Appendices contents

Fraud

While management have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting to you our Audit Planning Report on 23 July 2020

Related parties

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

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

Service auditor reports

We reviewed the service auditor reports in respect of the following Council functions that are outsourced to, or hosted by, other bodies:

- Pooled investments

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We identified the following matter non-compliance with laws and regulations:

- The Council failed to publish details of a contract award to a consultant engaged to provide advice on the Manor Street regeneration project on Contracts Finder. This omission breached the Council's Contract Procedure Rules.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Unadjusted audit differences: Summary |
| Unadjusted audit differences: Detail |
| Unadjusted disclosure omissions and improvements |
| Adjusted audit differences: Summary |
| Adjusted audit differences: Detail |
| Adjusted disclosure omissions and improvements |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |



We are required to bring to your attention unadjusted differences and we request that you correct them.

We identified three unadjusted audit differences that, if posted, would increase the deficit on the provision of services for the year by £169,000.

There would be no impact on general fund balances.

Management consider these differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Unadjusted audit differences: Summary |
| Unadjusted audit differences: Detail |
| Unadjusted disclosure omissions and improvements |
| Adjusted audit differences: Summary |
| Adjusted audit differences: Detail |
| Adjusted disclosure omissions and improvements |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|-------------|---------------|---------------|---------------|
| | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Unadjusted audit differences | | | | | |
| Total comprehensive income and expenditure | (7,648) | | | | |
| Adjustment 1: Assets not revalued in the year | | | | | |
| DR Revaluation reserve | | | | 69 | |
| CR PPE Valuation | | | | | (69) |
| Adjustment 2: PPE Additions accounted for as REFCUS | | | | | |
| DR PPE Equipment additions | | | | 89 | |
| CR REFCUS Expenditure | | | (89) | | |
| CR Unusable Reserves - Capital Adjustment Account | | | | | (89) |
| DR Usable reserves - MIRS | | | | 89 | |
| Unadjusted audit differences carried forward | | | (89) | 89 | |

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | Income and expenditure | | | Balance Sheet | |
|--|------------------------|-------------|---------------|---------------|---------------|
| | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Unadjusted audit differences | | | | | |
| Unadjusted audit differences brought forward | | | (89) | | |
| Adjustment 3: Understatement of PPE - Other land and buildings due to input differences (extrapolated error) | | | | | |
| DR Investment properties | | | | 80 | |
| CR Unusable reserves | | | | | (80) |
| DR Usable reserves - General Fund | | | | 80 | |
| CR CIES Financing and investment income and Expenditure | | | (80) | | |
| Total unadjusted audit differences | | | (169) | 169 | |
| Total comprehensive income and expenditure for the year if above issues adjusted | | | (7,817) | | |

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| | General Fund balance £'000 |
|---|----------------------------------|
| Impact on the General Fund balance | |
| Balance before unadjusted audit differences | 28,813 |
| Impact on total comprehensive income and expenditure | (169) |
| Adjustments that would be reversed from the General Fund and through the Movement in Reserves Statement | 169 |
| Balance after the above adjustments | 28,813 |

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Governance and Audit Scrutiny Committee is required to consider.

The following unadjusted disclosure matter was noted in relation to the fair value of investment assets:

The council currently shows all of its pooled investments as level one on the fair value hierarchy. To meet the definition of level one the council should be able to access the quoted price (unadjusted) in an active market for an identical asset at the measurement date. The council hold an investment in the CCLA LA property fund which was suspended at year end, therefore there was not an active market. We therefore suggested that the council should be showing the pooled property investments as level two as a price was provided for valuation purposes at year end although trading was suspended.



ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Unadjusted audit differences: Summary |
| Unadjusted audit differences: Detail |
| Unadjusted disclosure omissions and improvements |
| Adjusted audit differences: Summary |
| Adjusted audit differences: Detail |
| Adjusted disclosure omissions and improvements |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |



Management have corrected two errors identified by our audit. These adjustments had no impact on the deficit on the provision of services or net assets.

There was no impact on the general fund balance.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

| |
|--|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Unadjusted audit differences: Summary |
| Unadjusted audit differences: Detail |
| Unadjusted disclosure omissions and improvements |
| Adjusted audit differences: Summary |
| Adjusted audit differences: Detail |
| Adjusted disclosure omissions and improvements |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

| | Income and expenditure | | | Balance Sheet | |
|---|------------------------|-------------|---------------|---------------|---------------|
| | NET DR/(CR) £'000 | DR £'000 | (CR) £'000 | DR £'000 | (CR) £'000 |
| Adjusted audit differences | | | | | |
| Retained deficit on the provision of services for the year before adjustments | £3,842 | | | | |
| Adjustment 1: Intangible asset disposal not recognised in accounts | | | | | |
| DR Intangible asset - Amortisation | | | | 571 | |
| CR Intangible asset | | | | | (571) |
| Adjustment 2: Surplus asset incorrectly classified as Council dwelling | | | | | |
| DR Surplus assets | | | | 359 | |
| CR Council Dwellings | | | | | (359) |
| Total Adjusted audit differences | | | | 930 | (930) |
| Adjusted retained deficit on the provision of services for the year | £3,842 | | | | |

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Governance and Audit Scrutiny Committee is required to consider.

The following adjusted disclosure matters were noted:

- The cashflow statement recorded a cash receipt of £1.3m for the sale of land. This was incorrectly netted off the Net Loss on Sale of Non-current Assets rather than as proceeds.
- Assets acquired under finance lease were shown at the net amount of £116,000 rather than the gross amount £214,000
- The Collection Fund note included an overstatement by £305,000 of both the amount of refunded provision, and the increase in provision in the year
- Audit fees were understated, as grant certification fees had not been agreed at the time the accounts were prepared
- A number of minor presentational items have been amended.



| |
|-------------------------------------|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Reporting on other information |
| Special reporting powers and duties |
| Whole of Government Accounts |
| Use of resources |
| Audit report |
| Independence and fees |
| Appendices contents |

REPORTING ON OTHER INFORMATION

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

| Matter | Comment |
|---|---|
| We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit. | We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge |
| We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council. | <p>The Council has amended its draft Annual Governance Statement to draw attention to the weaknesses identified in the procurement processes in relation to the Manor Street development.</p> <p>We have no other matters to report in relation to the consistency of the Annual Governance Statement with the financial statements, or our knowledge of the Council.</p> |

WHOLE OF GOVERNMENT ACCOUNTS

Contents

Introduction

Executive summary

Financial statements

Audit differences

Other reporting matters

Reporting on other information

Special reporting powers and duties

Whole of Government Accounts

Use of resources

Audit report

Independence and fees

Appendices contents

Matter

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

Comment

Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council met this deadline.

We will submit the relevant section of the assurance statement to the National Audit Office at the same time as issuing our audit opinion.

| |
|---|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Overview |
| Sustainable finances (use of resources) |
| Informed Decision Making (use of resources) |
| Follow up of prior year deficiencies |
| Audit report |
| Independence and fees |
| Appendices contents |

OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources

| Audit Risk | Criterion | Risk Rating | Issues identified that impact on conclusion |
|--------------------------|---------------------------------|-------------|---|
| Sustainable finances | Sustainable resource deployment | Significant | No |
| Informed decision making | Informed decision making | Significant | Yes, qualified 'except for' conclusion |

SUSTAINABLE FINANCES (USE OF RESOURCES)

| |
|---|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Overview |
| Sustainable finances (use of resources) |
| Informed Decision Making (use of resources) |
| Follow up of prior year deficiencies |
| Audit report |
| Independence and fees |
| Appendices contents |

The Council will need to deliver significant savings targets to maintain financial stability in the medium term; there is a risk that those savings will not be delivered.

| | |
|---|--|
| Significant risk | |
| Normal risk | |
| Sustainable resource deployment | |
| Informed decision making | |
| Working with partners and other third parties | |
| Significant control findings to be reported | |

Risk description

The financial environment in which the Council operates continues to be challenging, and presents a number of risks to the financial sustainability of the Council. The Council's Medium Term Financial Strategy (approved February 2020) identified a savings gap of £1.4 million over the period 2020/21 - 2023/24.

Delivering the necessary savings to deliver a balanced budget will be challenging, and is likely to require difficult decisions around service provision and alternative delivery models. There is a risk that this will not be achieved, impacting on the financial sustainability of the Council.

Work performed

We carried out the following planned audit procedures:

- Reviewed the Council's decision making process in relation to the approval of its budget and Medium Term Financial Strategy, in particular the quality of the information provided to Members.
- Reviewed the assumptions within the Council's Medium Term Financial Plan, including the reasonableness of the cost pressures and income assumptions.
- Reviewed the strategies to close the budget gap after 2020/21

Results and conclusion

The renewed MTFs notes a budget gap of £1.4m to the end of 23/24. Historic trends show that budget gaps have been forecast but in the last 5 years the Council has ended the financial year in surplus. As at 31 March 2020, the Council's unallocated reserves are £6.883m against the official reserves policy to maintain unallocated general fund reserves of at least £1.5m. The Council currently has 4.6 times that level and could meet the forecast budget gap from reserves if necessary.

There are plans in place to reduce the earmarked reserves, many of which relate to the Council's capital programme and whilst there has been some underspend in the year in relation to Horizon 120, this is expected to be addressed in the current financial year as overall the project is broadly on timetable.

As a result, we believe that the Council has adequate arrangements in place to remain financially sustainable in the medium term.

INFORMED DECISION MAKING (USE OF RESOURCES)

| |
|---|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Overview |
| Sustainable finances (use of resources) |
| Informed Decision Making (use of resources) |
| Follow up of prior year deficiencies |
| Audit report |
| Independence and fees |
| Appendices contents |

Effective governance arrangements will be needed to ensure the significant financial and reputational risks arising from these schemes are adequately mitigated.

| |
|---|
| Significant risk |
| Normal risk |
| Sustainable resource deployment |
| Informed decision making |
| Working with partners and other third parties |
| Significant control findings to be reported |

Risk description

The Council are currently working on two schemes that are significant in terms of its strategic, operational and financial priorities. Both schemes present significant financial and reputational risks to the Council.

- **Town Centre Regeneration.** In September 2019, the Council approved plans to regenerate the Manor Road area of Braintree town centre. The project will see the construction of 35 new homes, a hotel, retail facilities, improved public transport and health facilities, and the creation of over 100 new jobs. Site preparation work commenced in January 2020, with main construction work scheduled to complete in 2021. The cost of the project is estimated at £33 million.
- **Horizon 120.** In December 2018, the Council acquired Horizon 120, a 65 acre area of employment land in Great Notley. The Council is currently working with third parties on proposals to develop the site; this is likely to include the sale of part of the site.

Work performed

We carried out the following planned audit procedures:

- Reviewed the quality of the Council's decision making process, in particular the quality of the budgetary and other information provided to Members when taking decisions in relation to the projects
- Reviewed the extent to which the Council has sought and considered relevant technical, legal and independent professional advice to inform any decisions it made in considering the business case for these projects
- Reviewed the extent to which the Council has identified, considered and mitigated the risks around these projects
- Reviewed the extent to which the Council has modelled the financial implications of these projects through its medium term financial plan
- Where applicable, reviewed the extent to which the Council considered alternative funding options
- Reviewed the adequacy of the processes established by the Council to review and monitor delivery of the agreed outputs.

INFORMED DECISION MAKING (USE OF RESOURCES)

| |
|---|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Overview |
| Sustainable finances (use of resources) |
| Informed Decision Making (use of resources) |
| Follow up of prior year deficiencies |
| Audit report |
| Independence and fees |
| Appendices contents |

Effective governance arrangements will be needed to ensure the significant financial and reputational risks arising from these schemes are adequately mitigated.

| | |
|---|--|
| Significant risk | |
| Normal risk | |
| Sustainable resource deployment | |
| Informed decision making | |
| Working with partners and other third parties | |
| Significant control findings to be reported | |

Results

We have reviewed the quality of the information provided to Members and Officers when taking decisions in relation to these projects, and in particular the extent to which the Council sought and considered relevant technical, legal and independent professional advice to inform the decisions it took.

In relation to the Manor Street Regeneration Project, we noted a number of weaknesses in the Council's governance processes. This project was approved by Cabinet in May 2018, and Full Council in June 2018 with a total scheme budget of £23.495 million. This budget was based on a pre-tender estimate of construction costs of £21.2 million. These costs were determined by consultants engaged by the Council.

In July 2018 a detailed planning application was submitted and in January 2019 a lease between the Council and Travelodge was signed. Planning consent for the development was granted in March 2019, and the Council commenced a competitive tender process for the appointment of a contractor who would be engaged on the basis of a design and build contract.

In June 2019 it became clear that the cost estimates approved by Full Council in June 2018 were not sufficient to take the project to delivery. Five companies were invited to tender, and three tenders were received. On 9th September 2019 Cabinet approved a revised budget of £29.4 million for this project. This is significantly above the pre-tender estimate. We recognise that the Council did reconsider its decision to proceed with the Manor Street project following the increase in costs. However, the deficiencies in the original cost estimates and in the Council's processes for determining these estimates are sufficiently significant to warrant a qualification of our value for money conclusion, as members were not provided with sufficient, appropriate information to make an informed decision on whether to commence the Manor Street project.

The Council has responded positively to this issue, engaging an external consultant to assess the reasons for the significant increase in costs. The consultant's report has been considered by the Council's Corporate Management Board, and Corporate Governance Committee, and the Council has put in place changes to its procedures that have strengthened its decision making, governance, and procurement processes around significant contracts, including revisions to its Constitution and Financial Procedure Rules.

Further detail on the issues identified by this review are set out on the following pages.

INFORMED DECISION MAKING (USE OF RESOURCES)

Effective governance arrangements will be needed to ensure the significant financial and reputational risks arising from these schemes are adequately mitigated.

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings to be reported

Discussion and conclusion

Weaknesses in the procurement process followed by the Council in the appointment of a cost consultant.

The Council's procurement team were requested by officers to find a framework that would enable it to appoint a particular contractor. The reason and rationale for this request is not known or documented. The Council's Procurement team identified that contractor could be appointed through the Fusion21 Framework Agreement, and the contractor was appointed despite having:

- No evidenced experience of regeneration or mixed-use schemes involving a hotel development
- A quality score that ranked 13th out of 27
- A cost score that ranked 25th out of 27
- 14 other firms offering a higher overall score.

Furthermore there was a lack of formal documentation justifying the Council's appointment of that contractor via a framework agreement. In particular, there was no documentation that set out:

- The rationale for the appointment without competition
- The rationale for the firm selected, and any consideration of alternative providers
- The experience of the proposed team
- How the appointment ensured the Council obtained value for money.

During the course of our audit we obtained independent legal advice to confirm whether the Council's appointment of its cost consultant complied with public procurement law. We concluded that the appointment was not unlawful as the estimated value of the contract was below the threshold at which the majority of the public procurement rules apply. While the payments made to the appointed contractor exceeded the threshold at which those rules apply, a contract may fall outside those rules if the contracting authority reasonably estimates that its value was below the relevant threshold, even if it subsequently transpires that the amount paid under the contract in fact exceeds the relevant threshold.

The Council did, however, commit an unlawful omission (and a breach of its own Contract Procedure Rules) by failing to post an award notice on Contracts Finder.

INFORMED DECISION MAKING (USE OF RESOURCES)

| |
|---|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Overview |
| Sustainable finances (use of resources) |
| Informed Decision Making (use of resources) |
| Follow up of prior year deficiencies |
| Audit report |
| Independence and fees |
| Appendices contents |

Effective governance arrangements will be needed to ensure the significant financial and reputational risks arising from these schemes are adequately mitigated.

| | |
|---|--|
| Significant risk | |
| Normal risk | |
| Sustainable resource deployment | |
| Informed decision making | |
| Working with partners and other third parties | |
| Significant control findings to be reported | |

There was no evidence the Council had challenged the advice provided by its cost consultant.

The Council's review found that cost plans provided by the Council's consultant lacked clarity around the key assumptions made in developing a cost estimates, and there was no evidence that these assumptions were subject to challenge by officers. These included assumptions that:

- Works in North Essex would be 15% less than current tender rates, at that time, in London
- No allowance was made for future price movements, despite the project having a long lead in time and duration.

A failure to challenge these assumptions led to the significant cost increases highlighted on the previous page.

Weaknesses in the Project Management processes applied by the Council

The Council's project management processes were insufficiently developed and documented. In particular:

- Project governance and project team roles and responsibilities were insufficiently defined and documented
- The project team's risk register was not sufficient
- There was no formal evaluation or Gateway review process before proceeding to the next stage
- The project benefits were not clearly defined, so that outcomes and success could be measured
- There was no formal communication plan setting out how, and when, each stakeholder group would be engaged with throughout the lifetime of the project.

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

| |
|---|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Overview |
| Sustainable finances (use of resources) |
| Informed Decision Making (use of resources) |
| Follow up of prior year deficiencies |
| Audit report |
| Independence and fees |
| Appendices contents |

| Area | Issue and impact | Original recommendation | Progress | Management response |
|-----------------------|---|--|--|--------------------------------------|
| Prior year deficiency | During the course of our work we noted that the Council does not require all journals to be authorised on the financial accounting system and instead relies on budgetary control to identify errors in posting. Currently controls include incoming journals to the finance team come from authorised individuals as recorded in a register maintained by Internal Audit; and only journals being produced in accountancy by senior staff with considerable knowledge/ expertise. Journals are then generally processed by other staff. All journals are referenced indicating the source of the journal, and who has processed the journal. | Introduce a system of journal authorisation or review within the financial accounting procedures to reduce the risk of fraudulent or incorrect journals being posted | A review process has been implemented whereby the financial services manager reviews a list of all journals posted monthly | A review process has been introduced |

OVERVIEW

| |
|-------------------------|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Overview |
| Independence and fees |
| Appendices contents |

Opinion on financial statements

We anticipate issuing an unqualified opinion on the financial statements.

We are planning to include an ‘emphasis of matter’ within our audit opinion in relation to the material uncertainty over property valuations as at 31 March 2020 owing to the Covid-19 pandemic.

Conclusion on use of resources

We are proposing to issue a qualified ‘except for’ use of resources conclusion because of the issues we identified in relation to the Manor Street Development.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Audit certificate

We have not identified any matters that would prevent us issuing our audit certificate. We expect to issue this with our auditor’s report.

INDEPENDENCE

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Governance and Audit Scrutiny Committee in advance in accordance with the Council's policy on this matter.

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

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

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

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

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

FEES

| |
|-------------------------|
| Contents |
| Introduction |
| Executive summary |
| Financial statements |
| Audit differences |
| Other reporting matters |
| Use of resources |
| Audit report |
| Independence and fees |
| Independence |
| Fees |
| Appendices contents |

| Fees summary | | | |
|---|------------|------------------------|---------------|
| | 2019/20 | 2019/20 | 2018/19 |
| | Actual | Planned | Actual |
| | £ | £ | £ |
| Audit fee | | | |
| • Code audit fee: financial statements and use of resources | 75,012 | ⁽¹⁾ £46,012 | 47,510 |
| Non-audit assurance services | | | |
| Fees for reporting on government grants: | | | |
| • Housing benefits subsidy claim | 13,600 | ⁽²⁾ 12,500 | 11,800 |
| Total fees | TBC | 58,512 | 59,310 |

- (1) The 2019/20 planned audit fee was the PSAA published scale fee. The scale fee was based on the historical position from 2012/13, and therefore does not reflect the significant increases in the Council's portfolio of non-current assets, or changes in audit scope linked to current audit requirements for the valuation of property assets, or pension liability valuations. We will submit a request to PSAA to vary the scale fee to reflect the additional costs we incurred in relation to our work on the valuation of property assets, and the additional costs we incurred in relation to our use of resources assessment. This includes the additional costs we obtained in relation to the legal advice referred to on page 36.
- (2) The planned fee for our work on the Council's housing benefit subsidy claim was estimated on the basis of the work required on the 2018/19 claim. Our work on the Housing benefits subsidy claim is now complete.





APPENDICES CONTENTS

| | | |
|---|--|----|
| A | Our responsibilities | 43 |
| | Our responsibilities | 43 |
| | Additional matters we are required to report | 44 |
| B | Communication with you | 45 |
| | Communication with you | 45 |
| C | Outstanding matters | 46 |
| | Outstanding matters | 46 |
| D | Audit report | 47 |
| | Audit report | 47 |
| E | Latest regulatory developments | 52 |
| | Latest regulatory developments | 52 |

| | | |
|---|---------------------------------------|----|
| F | Ethical standard | 57 |
| | FRC Ethical standard | 57 |
| G | Audit committee guidance | 58 |
| | FRC Practice Aid for Audit Committees | 58 |
| H | Letter of representation | 59 |
| | Representative letter | 59 |
| I | Audit quality | 62 |
| | Audit quality | 62 |

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your 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 Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council had not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Governance and Audit Scrutiny 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.



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

| | Issue | Comments |
|---|---|--|
| 1 | Significant difficulties encountered during the audit. | No exceptions to note. |
| 2 | Written representations which we seek. | We enclose a copy of our draft representation letter. |
| 3 | Any fraud or suspected fraud issues. | No exceptions to note. |
| 4 | Any suspected non-compliance with laws or regulations. | The Council failed to publish details of a contract award to a consultant engaged to provide advice on the Manor Street regeneration project on Contracts Finder. This omission breached the Council's Contract Procedure Rules. |
| 5 | Significant matters in connection with related parties. | No exceptions to note. |

COMMUNICATION WITH YOU

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

Those Charged with Governance

References in this report to those charged with governance 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 Governance and Audit Scrutiny 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 have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

| Communication | Date (to be) communicated | To whom |
|-------------------------|---------------------------|---|
| Audit Planning Report | 23 July 2020 | Corporate Governance Group |
| Audit Completion Report | 28 October 2021 | Governance and Audit Scrutiny Committee |
| Annual Audit Letter | To be confirmed | Governance and Audit Scrutiny Committee |

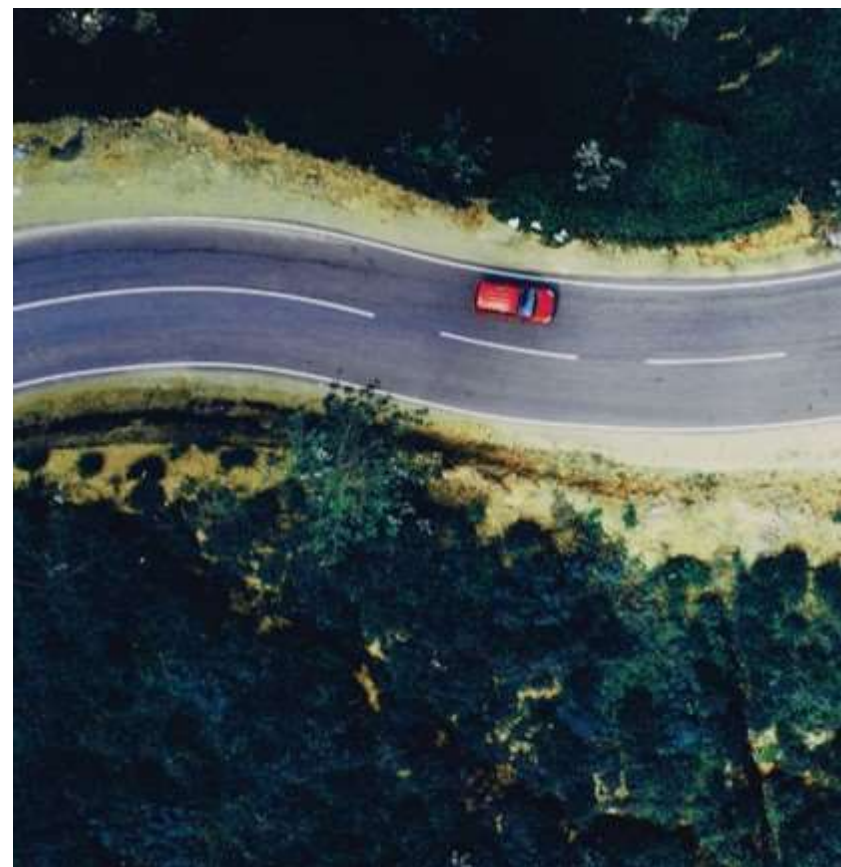
OUTSTANDING MATTERS

| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and completion of these matters could impact our audit opinion. We will update you on their current status at the meeting of the Governance and Audit Scrutiny Committee at which this report is considered:

- Receipt of signed letter of representation
- Review of updated Annual Governance Statement
- Completion of Engagement Director and internal quality reviews



AUDIT REPORT

To be added once audit completed

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

AUDIT REPORT 2

To be added once audit completed

| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

AUDIT REPORT 3

To be added once audit completed

| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

AUDIT REPORT 4

To be added once audit completed

| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

AUDIT REPORT 5

To be added once audit completed

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

A number of corporate governance, financial reporting and audit failures since the ‘financial crises’ have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

| Initiative | Timeline 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Status |
|--|--|---|---|---|--------------------------------|--|
| BEIS Select Committee | ‘Carillion’ report issued 5/2018 | ‘Future of audit’ report issued 24/4/2019 | Government response issued 7/6/2019 | | | It is a priority area for the Committee which has a watching brief |
| Competition and Markets Authority (CMA) Report ‘Statutory Audit Services Market Study’ | Launch of Market study 9/10/2018 | Responses to consultation 21/1/2019 | Report and recommendations published 18/4/2019 | First BEIS consultation on implementation ended 13/9/2019 | | Further consultations expected in 2020 |
| ‘Report of the Independent Review in to the quality and Effectiveness of Audit’ - Sir Donald Brydon | | Team appointed to undertake review 2/2019 | Consultation ended 7/6/2019 | | Brydon report issued 9/12/2019 | Further consultations expected in 2020 |
| ‘Independent Review of the FRC’ by Sir John Kingman | Kingman Report published - 83 recommendations 18/12/2018 | Secretary of State announces plans for a new regulator (ARGA) 11/3/2019 | 48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019 | | | Further consultations expected in 2020 |

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

LATEST REGULATORY DEVELOPMENTS 2

Continued

| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

| Report | Topic | Key points |
|---|---|---|
| ‘Independent Review of the FRC’ by Sir John Kingman | December 2018 - Future of regulation and the FRC - requested by the Secretary of State | <ul style="list-style-type: none"> Highlighted deficiencies in FRC and its operating effectiveness New regulator to replace FRC ‘Audit, Reporting and Governance Authority’ Reconsideration of which entities are classed as ‘public interest’ <p>A number of changes require legislation changes but the FRC is working on implementation where possible.</p> |
| Related BEIS consultation | BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019 | <p>The proposals being classed as:</p> <ul style="list-style-type: none"> FRC and BEIS will implement as soon as possible Can be implemented once considered, in advance of legislation Primary legislation required <p>Further consultations are expected and will form part of the 2020 suite of consultations undertaken.</p> |
| Competition and Markets Authority (CMA) Report ‘Statutory Audit Services Market Study’ | April 2019 - Future of market competition | <p>Report 18 April 2019 - suggestions include</p> <ul style="list-style-type: none"> Increased accountability of audit committees including a focus on how they select auditors and their consideration of audit quality Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews An operational split between the audit and non audit practices of the big 4 A 5 year review of progress by the new regulator <p>Further consultations are expected and will form part of the 2020 suite of consultations undertaken.</p> |

LATEST REGULATORY DEVELOPMENTS 3

Continued

| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

| Report | Topic | Key points |
|--|---|--|
| BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' - 24 April | Consideration of 2 reports - CMA and Kingman - to ensure they will lead to coherent framework | <p>This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular:</p> <ul style="list-style-type: none"> • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGAs - deal with failures more quickly and more stringently <p>Published June 2019.</p> |

LATEST REGULATORY DEVELOPMENTS 4

Brydon

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

In December 2019 Sir Donald Brydon published his “Report of the Independent Review in to the quality and Effectiveness of Audit” . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors’ Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGAs - the new regulator.

Key considerations for Audit Firms

- A new definition of audit: “ The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”
- Recognition of other stakeholders alongside the company’s shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for ‘professional suspicion’ alongside ‘professional scepticism’;

- Replace ‘true and fair’ with ‘present fairly, in all material respects’;
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors’ statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company’s internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee Chair and the auditor.

LATEST REGULATORY DEVELOPMENTS 5

Redmond

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
 - an annual report being submitted to Full Council by the external auditor;
 - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
 - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

FRC ETHICAL STANDARD

Issued in December 2019

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.

| 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. |
| Extra-territorial impact | For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon. |
| 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. |
| Non-audit services to a public interest entity (PIE) | Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap. |
| Other entities of public interest ('OEPI') | OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an <i>SME listed entity</i> - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: <ul style="list-style-type: none"> – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. |

The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication with you

Outstanding matters

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit report 5

Latest regulatory developments

Latest regulatory developments 2

Latest regulatory developments 3

Latest regulatory developments 4

Latest regulatory developments 5

Ethical standard

Audit committee guidance

Representative letter

Representative letter 2

Representative letter 3

Audit quality

FRC PRACTICE AID FOR AUDIT COMMITTEES

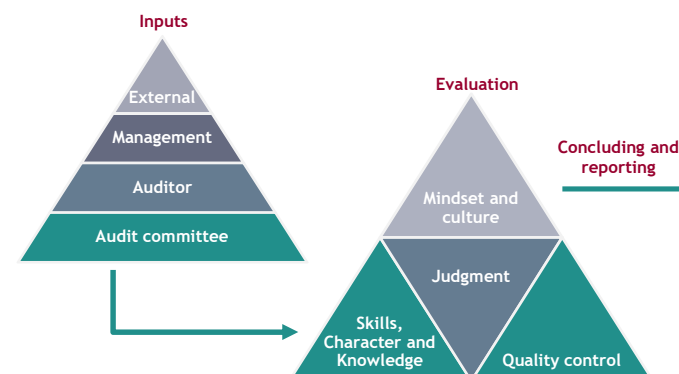
| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the [FRC website](#). In their practice aid the FRC note: ‘The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company’s internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.’

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the [FRC website](#).

BDO LLP
55 Baker Street
London
W1U 7EU

Dear Sirs

Financial statements of Braintree District Council for the year ended
31 March 2020

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Corporate Director (Finance) has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

Other than those disclosed in the financial statements, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 31 to the financial statements, there were no loans, transactions or arrangements between the Council and Council members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 1.95%
- Rate of increase in salaries: 2.95%
- Rate of increase in pensions: 1.95%
- Rate of discounting scheme liabilities: 2.35%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

| |
|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |

b) Valuation of other land and buildings and investment properties

We are satisfied that the useful economic lives of the other land and buildings, and their constituent components, used in the valuation of the council dwellings and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as Level 2 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable, based on collection rate data.

d) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2020 are consistent with our knowledge of the business.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Chris Fleetham

Corporate Director (Finance)

AUDIT QUALITY

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|--|
| Contents |
| Appendices contents |
| Our responsibilities |
| Additional matters we are required to report |
| Communication with you |
| Outstanding matters |
| Audit report |
| Audit report 2 |
| Audit report 3 |
| Audit report 4 |
| Audit report 5 |
| Latest regulatory developments |
| Latest regulatory developments 2 |
| Latest regulatory developments 3 |
| Latest regulatory developments 4 |
| Latest regulatory developments 5 |
| Ethical standard |
| Audit committee guidance |
| Representative letter |
| Representative letter 2 |
| Representative letter 3 |
| Audit quality |



BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

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

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

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

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

FOR MORE INFORMATION:

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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 Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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| Report Title: To receive the Treasury Management Mid-Year Report for 2021/22 | |
| Report to: Governance and Audit Scrutiny Committee | |
| Date: 28 th October 2021 | For: Decision |
| Key Decision: No | Decision Planner Ref No: N/A |
| Report Presented by: Phil Myers, Head of Finance | |
| Enquiries to: Phil Myers, Head of Finance (phil.myers@braintree.gov.uk) | |

1. Purpose of the Report

- 1.1 The Council has adopted the Code of Practice for Treasury Management in Public Services published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the Council to receive at least one mid-year report on its treasury management activities.
- 1.2 The mid-year report is to be considered by the Governance and Audit Scrutiny Committee prior to its submission to Full Council.

2. Recommendations

- 2.1 To consider the Treasury Management Mid-Year Report for 2021/22 and recommend its submission to Full Council.

3. Summary of Issues

- 3.1 The Treasury Management Strategy for 2021/22 was approved by Full Council at its meeting held on 22nd February 2021. The mid-year report for 2021/22 is attached to this report as an **Appendix**.
- 3.2 The recommendation set out in this report will help the Council to demonstrate that it is achieving its corporate objectives of being a high performing organisation that delivers excellent and value for money services; and is delivering better outcomes for residents and businesses and reducing costs to taxpayers. Details of how the Council's treasury management activities contribute towards these objectives are set out in the mid-year report.

4. Options

- 4.1 The Committee may suggest changes to the mid-year report and/ or provide comments which the Cabinet Member for Finance and Corporate Transformation can take into account when presenting the final report to Full Council.

5. Next Steps

- 5.1 The final mid-year report will be submitted to Full Council at its meeting on 13th December 2021.

6. Financial Implications

- 6.1 There are no new financial implications arising from this report. The financial impact from the Council's treasury management activities are reported in the Council's Quarterly Performance Report.

7. Legal Implications

- 7.1 The Council's treasury management activities are subject to regulation by the CIPFA Code. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

8. Other Implications

- 8.1 There are no other implications arising from this report.

9. Equality and Diversity Implications

- 9.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 9.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 9.3 This report will not have a disproportionately adverse impact on any people with a particular characteristic.

10. List of Appendices

Treasury Management Mid-Year Report 2021/22

11. Background Papers

None

1. Introduction

- 1.1 The Authority's treasury management strategy for 2021/22 was approved by Full Council as part of the overall budget at the meeting on 22nd February 2021. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

2. External Context

Economic Background

- 2.1 The economic recovery from the coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.
- 2.2 The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for Gross Domestic Product (GDP) growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee (MPC) meeting ended with policy rates unchanged, the tone was more hawkish.
- 2.3 Government initiatives continued to support the economy but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.
- 2.4 The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due

to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

- 2.5 Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS) preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

Financial Markets

- 2.6 Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-pandemic peak.
- 2.7 Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, than was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, led to higher prices.
- 2.8 The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.
- 2.9 The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

Credit Review

- 2.10 Credit default swap spreads were flat over most of period and are broadly in line with their pre-pandemic levels
- 2.11 Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.
- 2.12 The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the

sector is in a generally better position now compared to earlier this year and 2020.

- 2.13 The Authority's treasury management advisors, Arlingclose Ltd, completed their review of the credit advice on unsecured deposits. The outcome of this review resulted in the maximum duration for all recommended counterparties being extended to 100 days (from 35 days).
- 2.14 As ever, the institutions and durations on the Authority's counterparty list remain under constant review.

3. Local Context

- 3.1 On 31st March 2021, the Authority had cash and investments totalling £38.11m, and borrowing of £6.00m.
- 3.2 With low official interest rates reducing returns on investments the strategy adopted was to keep borrowing and investments below their underlying levels in order to reduce risk, resulting in internal borrowing of £15.84m at 31 March 2021.
- 3.3 The treasury management position on 30th September 2021 and the change over the six months is summarised below:

| | 31.3.21 £m | Movement £m | 30.09.21 £m |
|-------------------------------------|-----------------------|------------------------|------------------------|
| Borrowing | 6.00 | - | 6.00 |
| | | | |
| Pooled Funds ¹ | 19.00 | - | 19.00 |
| Short-term investments ¹ | 14.00 | 33.50 | 47.50 |
| Restricted cash | 3.07 | (3.07) | - |
| Cash | 2.04 | (0.11) | 1.93 |
| Cash and Investments | 38.11 | 30.32 | 68.43 |
| Net Cash and Investments | 32.11 | 30.32 | 62.43 |

¹ Excludes unrealised change in market values

- 3.4 Restricted cash represented funds that were received from the sale of serviced land plots at Horizon 120 for which a proportion was required to be placed into escrow pending completion by the Authority of certain infrastructure works. These works have been completed and the funds were released in August.

4. Borrowing Update

4.1 Revised Public Works Loan Board (PWLB) Guidance

- 4.1.1 Changes introduced to PWLB lending policy in November 2020 resulted in local authorities being prevented from borrowing from PWLB if their capital plans for the next three years included the acquisition of investment assets for yield. HM Treasury issued further guidance in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. Revisions were also made to the terms and conditions applicable to loans obtained from the PWLB taking effect from 8th September 2021, which extends the settlement time for a new loan from

two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

4.2 Existing Borrowing

- 4.2.1 The Authority continues to hold £6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The current lender of these loans has not exercised their option.
- 4.2.2 An initial assessment of the LOBO loans by Arlingclose indicated potential restructuring opportunities through a negotiated settlement with the lender. The risks and benefits, including restructuring savings, are currently being assessed.

5. Treasury Investment Activity

- 5.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. For the period April to September, the Authority's investment balances averaged £55.77m with the highest amount held being £73.48m. The change in investment position over the period is shown in the table below:

| | 31 Mar 21 £m | Movement Apr-Sept £m | 30 Sept 21 £m |
|-------------------------------------|-----------------|----------------------------|------------------|
| Pooled Funds | | | |
| Equity funds | 13.00 | - | 13.00 |
| Diversified funds | 3.00 | - | 3.00 |
| Property fund | 3.00 | - | 3.00 |
| Sub-total | 19.00 | - | 19.00 |
| Short-term investments | | | |
| Debt Management Office | - | 28.50 | 28.50 |
| Money Market Funds (low volatility) | 10.00 | 5.00 | 15.00 |
| Money Market Fund (variable) | 4.00 | - | 4.00 |
| Sub-total | 14.00 | 33.50 | 47.50 |
| Restricted cash | 3.07 | (3.07) | - |
| Lloyds Bank | 2.04 | (0.11) | 1.93 |
| Total | 38.11 | 30.32 | 68.43 |

- 5.2 Investment balances typically peak around September before reducing over the remaining six-months. Balances have been elevated again during the first half-year from government funding for business rate reliefs and grants. The post-payment reconciliation of these funds, along with the current expected spend on the capital programme of circa £38m in the year, means that cash balances are expected to reduce significantly towards the end of the current

financial year, resulting in the potential for having to refinance some of the existing internal borrowing with new external loans.

- 5.3 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 5.3 Ultra-low short-dated cash rates, which have been a feature since March 2020 when Bank Rate was cut to 0.1%, have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out yet.
- 5.4 Deposit rates with the Debt Management Account Deposit Facility (DMADF) have also been largely around zero.
- 5.5 The amount of interest earned on short-term investments in the period April to September is £5,141, which is an annualised return of 0.03%.
- 5.6 The Authority has £19m invested in externally managed strategic pooled funds comprising: equity funds, multi-asset funds, and a property fund. Investments in these funds are made where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. The full-year budget for income from pooled funds is £686,000. At the end of September the funds had generated income of £369,000, which represented an annualised return of 3.88%. This figure is based on the actual dividends received or declared in the year; however, two funds were yet to confirm their September quarterly dividend.
- 5.7 The improved market sentiment in the past six months is reflected in the valuation of these funds which at the end of September had an overall valuation of £21.29m representing an unrealised gain of £2.29m.
- 5.8 Pooled funds have no defined maturity date, but are available for withdrawal after a notice period, therefore, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Investments are made in the knowledge that capital values will fluctuate; but with the confidence that over a three- to five-year period total returns will be expected to exceed cash interest rates.
- 5.9 The progression of risk and return metrics for the Authority's investments are shown in the following extracts from quarterly investment benchmarking:

| Period end | Credit Rating ¹ | Bail-in exposure ¹ | WAM ¹ (days) | Pooled funds volatility | Income return % | Total return ² % |
|-----------------|----------------------------|-------------------------------|-------------------------|-------------------------|-----------------|-----------------------------|
| 31.03.21 | A+ | 100% | 1 | 11.8% | 2.61% | 14.14% |
| 30.06.21 | AA- | 53% | 13 | 9.48% | 1.66% | 7.45% |
| 30.09.21 | AA- | 37% | 20 | 9.31% | 1.36% | 7.44% |
| Similar LAs | A+ | 69% | 32 | 3.04% | 1.20% | 3.93% |
| All clients | A+ | 69% | 10 | 3.87% | 3.65% | 2.35% |

Source: Arlingclose quarterly benchmarking

¹ Relates to internally managed investments

² Income plus change in market value of pooled funds

6. Compliance

6.1 All treasury management activities undertaken during the first half year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy, and specifically:

- Borrowing remained within the Operational and Authorised Boundary approved by Full Council of £30m and £50m, respectively;
- Investments were made primarily in Money Market Funds (MMFs) and with the Debt Management Office where the aggregate limits are unlimited, subject to an individual fund limit of £5m for MMFs.
- The only direct use of banks for holding cash during this period was via Lloyds Bank as the Council's banking services provider.

7. Other Developments

7.1 In February 2021, CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation.

7.2 CIPFA have now issued revised Codes and Guidance Notes in draft form and opened a further period of consultation on their proposed changes. The changes include:

- Clarification that (a) local authorities must not borrow to invest primarily for financial return; and (b) it is not prudent for authorities to make any investment or spending decision that may lead to new borrowing (as measured by the Capital Financing Requirement or CFR), unless directly and primarily related to the functions of the authority.
- Categorising investments as those (a) for treasury management purposes; (b) for service purposes; and (c) for commercial purposes.
- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions;

(ii) temporary management of cash flow within the context of a balanced budget; (iii) securing affordability by removing exposure to future interest rate rises; and (iv) refinancing current borrowing, including replacing internal borrowing with external borrowing.

- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- Prudential indicators:
 - New indicator for net income from commercial and service investments to the budgeted net revenue stream.
 - Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally to cover the authority's full debt maturity profile.
 - Excluding investment income from the definition of financing costs.
- Incorporating Environmental, Social, and Governance issues as a consideration within the Treasury Management Practice (TMP) on Risk Management.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making.

7.3 Responses to this latest consultation have been requested to be submitted by no later than 16th November.

7.4 The former Ministry for Housing, Communities and Local Government (MHCLG) published a brief policy paper in July outlining the ways it feels that the current capital finance framework is failing and potential changes that could be made. The paper found that “while many authorities are compliant with the framework, there remain some authorities that continue to engage in practices that push the bounds of compliance and expose themselves to excessive risk”.

7.5 The actions announced include greater scrutiny of local authorities and particularly those engaged in commercial practices; an assessment of governance and training; a consideration of statutory caps on borrowing; further regulations around Minimum Revenue Provision (MRP); and ensuring that MHCLG regulations enforce guidance from CIPFA and the new PWLB lending arrangements.

7.6 A further consultation on these matters is expected soon.

8. Outlook for the remainder of 2021/22

- 8.1 Arlingclose expects Bank Rate to rise in Q2 2022 which they consider to be driven as much by the Bank of England's desire to move from emergency interest rate levels as by fears of inflationary pressure.
- 8.2 Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, their view is that this will be by a lesser extent than expected by markets.
- 8.3 The views expressed by Arlingclose are based on the following:
- The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead.
 - While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the Covid support measures for the economy are ended.
 - Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation are expected to unwind over time, the MPC has recently communicated fears that these will feed longer-term inflation expectations that will require tighter monetary policy.
 - The supply imbalances that are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, are driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.
 - Government bond yields increased sharply following the September Federal Open Market Committee (FOMC) and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

- The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency interest rate levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

| | |
|--|-------------------------------------|
| Report Title: Monitoring Officer's Annual Report | |
| Report to: Governance and Audit Scrutiny Committee | |
| Date: 28 th October 2021 | For: Noting |
| Key Decision: No | Decision Planner Ref No: N/A |
| Report Presented by: Kim Cole, Head of Governance and Monitoring Officer | |
| Enquiries to: Kim Cole, Head of Governance and Monitoring Officer (kim.cole@braintree.gov.uk) | |

1. Purpose of the Report

- 1.1 This report provides an update on the functioning of the Member Standards Framework for the period 2020/21.
- 1.2 The Monitoring Officer is the proper officer for the discharge of the Council's functions under the Localism Act 2011, including the assessment and determination of complaints made in respect of the Code of Conduct (the Code) as adopted by Braintree District Council (the Council) and the Code of Conducts as adopted by all Parish and Town Councils in the Braintree District.

2. Recommendations

- 2.1 To note the Annual Report for 2020/21.

3. Summary of Issues

- 3.1 This is the Annual report of the Council's Monitoring Officer and covers the Civic Year 2020/21. The purpose of the report is to review the functions of the Standards framework and governance across the Council during this period.
- 3.2 A substantive review of the Council's Constitution and associated governance arrangements, was carried out during 2020/21. This was carried out in consultation via the Developing Democracy Group, Corporate Governance Group (now the Governance and Audit Scrutiny Committee) before being approved by Council at its Annual general Meeting in April 2021.
- 3.3 A series of training sessions will be provided by the Monitoring Officer and a programme of sessions will be set down in 2021/22. The purpose of the training session will be to introduce and explain the various provisions of the Constitution focusing on key issues and will fundamentally embed the Constitution throughout the Council.
- 3.4 Under section 28(7) of the Localism Act 2011 it is a statutory requirement for the Council to have appointed an Independent Person (IP) to discharge the

statutory role in relation to any complaints received by the Council under the Code. At the Annual General Meeting, the Council appointed its Independent Person together with a Reserve Independent Person for a period of three years with the provision to extend each term by one year if necessary. They will support the Monitoring Officer in the consideration of Code complaints.

- 3.5 The Monitoring Officer is the Proper Officer for receiving complaints in respect of Member conduct. This includes the conduct of District, Parish and Town Councillors. Under the Localism Act 2011, the Council are required to have in place arrangements for dealing with allegations that Councillors had failed to comply with the Code and also to investigate and determine those allegations. Those arrangements are published on the Council's website.
- 3.6 Complaints which relate to the failure to declare a Disclosable Pecuniary Interest, or a breach of a Councillor's requirement to register interests are referred to Essex Police. These matters are criminal offences under the Localism Act 2011 and the Monitoring Officer and the Council has no jurisdiction to consider these complaints. In 2020/21, there were no such referrals made to Essex Police.
- 3.7 The assessment of complaints is treated confidentially by the Monitoring Officer until the completion of any investigation (where one is instigated) and therefore it is not appropriate to publish details of the complaints. Complaints which are still subject to the consideration of the Monitoring Officer are also excluded from this report. During the year 2020/21, the Monitoring Officer received a number of formal complaints which have been considered and determined.
- 3.8 During the course of the year the key concerns raised through the Code complaint process related to the appropriateness of individual Councillors actions at meetings or on social media.
- 3.9 During the year 2020/21, there were complaints which were rejected at the initial assessment stage as they:
 - did not relate to a conduct issue that fell within the remit of the Code;
 - fell away as a result of the resignation of the Member whose conduct was the subject of the complaint; or
 - for were motivated by malice or tit for tat.
- 3.10 One complaint was formally withdrawn by the Complainant, and two were resolved through the informal resolution process.
- 3.11 Whilst the Council has worked hard to resolve all historical Code Complaints there are two outstanding, and these will be processed as soon as possible.
- 3.12 Under the Code Complaints process, the Monitoring Officer may refer any complaint to the Standards Sub-Committee for them to make the initial decision on whether or not to investigate the matter. For the year 2020/21

there has been no matters referred to the Standards Sub-Committee and not formal investigation has been commenced.

- 3.13 Following the National Model Code of Conduct being approved by the Local Government Association (LGA) in December 2020, small revisions were made by the LGA in January 2021 and May 2021. Following which detailed guidance was issued by the LGA in October 2021. The Council are now reviewing the Model Code of Conduct and will be bringing forward details for the Committees consideration in due course. The Committee will also be required to determine whether the Council wishes to adopt the new Model code of Conduct, with or without local modification and will be required to make its recommendation to Council. It is expected that this will come forward for determination in early 2022.
- 3.14 Section 33 of the Localism Act 2011 enables a Councillor (District and Parish/Town Councillor) to make a written request to the Proper Officer of the Authority to seek a dispensation relieving them from the restrictions as set out in Section 31(4) of the Act, namely the participation in discussion and the vote of matter in which they have declared a Disclosable Pecuniary Interest or in the case of a District Councillor a substantive Non-Pecuniary Interest. No applications for dispensation by District or Parish Councillors were made to the Monitoring Officer for 2020/21.
- 3.14 In accordance with the provisions of the Localism Act 2011, the Monitoring Officer is required to establish and maintain a Register of Interests for all District Councillors. In addition to this, the Monitoring Officer is required to obtain and publish copies of all Registers of Interests for Parish/Town Councillors. The Monitoring Officer discharges this function by publishing the Registers of Interests on the Council's website. Hard copies of the Registers are held by the Deputy Monitoring Officer.
- 3.15 Each District Councillor has their [own webpage page](#) which includes a tab for the Register of Interests and the Registers of Interests for Parish/Town Councillors are published as a single document on the [webpage for each of the Parish/Town Councils](#).
- 3.16 It is the responsibility of Councillors to ensure that their Registers of Interests remains up to date. To assist Councillors with this duty, periodic reminders were sent to all District Councillors and the Parish Clerks to ensure compliance. There were no issues with District Councillors' Registers of Interests for 2020/21. The Deputy Monitoring Officer has worked with individual Parish Clerks and Parish Councillors where concerns have been identified.

4. Financial Implications

- 4.1 There are no financial implications arising out of the recommendations set out in this report.

5. Legal Implications

- 5.1 Under Article 9 of the Constitution, the Governance and Audit Scrutiny Committee shall receive reports from the Monitoring Officer concerning the members code of Conduct. This report satisfies that requirement.

6. Other Implications

- 6.1 No other implications arising out of the recommendations set out in this report.

7. Equality and Diversity Implications

- 7.1 The recommendations set out in this report do not require an Equality Impact Assessment to be undertaken at this time.

8. List of Appendices

- 8.1 None.

9. Background Papers

- 9.1 None.