



Essex County Council

Audit, Governance and Standards Committee

10:00	Monday, 28 November 2022	Committee Room 1 County Hall, Chelmsford, CM1 1QH
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For information about the meeting please ask for:

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Essex County Council and Committees Information

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		Pages
1	Membership, apologies, substitutions and declarations of interest	5 - 5
2	Minutes and matters arising	6 - 11
	To approve as a correct record the minutes of the meeting held on 31 October 2022 and to identify any matters arising.	
3	Audit Planning Report for Essex County Council 2021-22 (AGS/31/22)	12 - 50
	To receive a report from Nicole Wood, Executive Director, Corporate Services, and Christing Golding, Chief Accountant, presenting the External Auditor's 2021/22 Audit Planning Report for Essex County Council.	
4	Work Programme (AGS/32/22)	51 - 53
	To receive a report from Paul Turner, Director, Legal and Assurance.	

5 Dates of Next and Future Meetings

1. To note that the next meeting of the Committee will take place at 10am on Monday 30 January 2023.(This replaces the previously notified date of 16 January.)
2. To note that future meetings of the Committee will take place on the following dates:

2023: 27 March, 5 June, 25 September, 8 December

2024: 25 March

Unless otherwise notified, all meetings will take place at 10am in Committee Room 1 at County Hall, Chelmsford, CM1 1QH.

6 Urgent Business

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.

Exempt Items

(During consideration of these items the meeting is not likely to be open to the press and public)

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

7 Urgent Exempt Business

To consider in private any other matter which in the opinion of the Chairman should be considered by reason of special circumstances (to be specified) as a matter of urgency.

Committee: Audit, Governance and Standards

Enquiries to: Sophie Crane, Senior Democratic Services Officer
Democratic.services@essex.gov.uk

Membership, Apologies, Substitutions and Declarations of Interest

Recommendations:

To note

1. The membership of the committee as shown below
2. Apologies and substitutions
3. Declarations of interest to be made by Members in accordance with the Members' Code of Conduct

Membership

(Quorum: 3)

Cllr Anthony Hedley
Cllr Anthony McQuiggan
Cllr Chris Siddall
Cllr Susan Barker
Cllr Michael Hoy
Cllr David King
Cllr Luke Mackenzie
Cllr Aidan McGurran
Cllr Mark Platt
Cllr Laureen Shaw
Mr Atta Ul Haque

Chairman
Vice-Chairman
Vice-Chairman

Independent member (non-voting)

The Minutes of the meeting of the Audit, Governance and Standards Committee, held in Committee Room 1, County Hall, Chelmsford on Monday 31 October 2022

[A YouTube recording of the meeting is to be found online.](#)

Present:

Members of the Committee:

Cllr Tony Hedley	Chairman
Cllr Susan Barker	
Cllr David King	
Cllr Aidan McGurran	
Cllr Luke McKenzie	
Cllr Anthony McQuiggan	
Cllr Mark Platt	
Cllr Laureen Shaw	
Cllr Chris Siddall	
Mr Atta Ul-Haque	Independent Member appointed to the Committee

ECC Officers:

Christine Golding	Chief Accountant joined the meeting online via Zoom
Stephanie Mitchener	Director, Finance
Paula Clowes	Head of Assurance
Sophie Crane	Senior Democratic Services Officer
Judith Dignum	Democratic Services Officer

Also present:

External Auditors:
Mr David Eagles BDO LLP
Mr Barry Pryke BDO LLP

Welcome and Introduction

Cllr Tony Hedley, the Chairman of the Audit, Governance and Standards Committee, welcomed those in attendance.

1. Membership, Apologies, Substitutions and Declarations of Interest

The report of Membership, Apologies and Declarations was received, and it was noted that:

- The membership of the Audit, Governance and Standards Committee was as shown in the report.
- Apologies had been received from Cllr Laureen Shaw for lateness. Cllr Laureen Shaw joined the meeting during agenda item 4.

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- No declarations of interests were made however Cllr Tony Hedley advised that he and Cllrs Susan Barker, Mark Platt and David King were also members of the Pensions Board.

Cllr Tony Hedley reminded members that any interests must be declared during the meeting if the need to do so arose.

2. Minutes and Matters Arising

The minutes of the meeting held on Monday 25 July were approved as a correct record and there were no matters arising.

3. Appointment of Vice-Chairman

It having been moved by Cllr Mark Platt and seconded by Cllr Susan Barker, and there being no other nominations, it was

Resolved:

That Cllrs Chris Siddall and Anthony McQuiggan be appointed as Vice-Chairmen of the Committee for the 2022/23 municipal year.

4. 2021/22 Audit Planning report for Essex Pension Fund

Christine Golding, Chief Accountant introduced the report and noted that there was no equivalent report for the Council at that stage.

Mr Barry Pryke of BDO confirmed that the two Materiality thresholds had been set at £96 million for the Net Assets Statement and £27.3 million for the Fund Account.

Mr Pryke confirmed that BDO remained independent of the Pension Fund and had not identified any issues in relation to independence.

The risks that had been identified as part of planning process were largely consistent with prior years, there was one new risk in relation to an increase in management expenses. Mr Pryke confirmed that BDO's work was reasonably well progressed and had not thus far identified any concerns relating to that risk. BDO's full findings would be included in a completion report to the Committee at later date.

It was clarified that the original figure given for audit fees had been an estimate which could change as the audit progressed.

Mr Pryke advised that members of the committee should contact the external auditors outside of the meeting if they became aware of suspected, alleged or actual fraud.

It was confirmed that the International Standard on Auditing (ISA315) had been significantly revised. This was a global change to the auditing standard that drives the audit planning process and was not specific to Essex. From 2022/23

more granular auditing work would be required and the increased quality expectations placed significant pressure on the external audit market overall.

Resolved

That the Committee noted the content of BDO's report.

5. Update on the 2020/21 and 2021/22 external audits of the Council and Essex Pension Fund

Christine Golding, Chief Accountant introduced the report and indicated that:

- The Department for Levelling Up, Housing and Communities had issued a consultation paper on 27 October 2022 regarding a national solution to the accounting for infrastructure assets issue.
- The Council was given one week to respond to the consultation and it appeared that the proposal did enable a resolution.
- Should the solution be agreed in December 2022 BDO would hope to conclude the Council's 2020/21 audit in January 2023.
- The Council had continued to keep a legacy finance system online to enable the conclusion of the 2020/21 audit. That system had been moved to a cloud environment which enabled access on month-by-month basis at a reduced cost of £4,000 per month.
- Work had started on Council's audit 2021/22 with the aim of concluding it in March 2023.

Mr David Eagles of BDO confirmed that the updated national position should enable BDO to issue the 2020/21 opinion on the financial statements and the more detailed report on value for money at same time. Essex County Council was the only 2021/22 audit that BDO had commenced, Mr Eagles noted that BDO could rely on the Chief Accountant to provide good quality accounts and supporting information.

Resolved

That the Committee noted:

- The reasons for the further delay to completion of the audit for 2020/21.
- The external auditor's current plans for undertaking the audits of the Council and Essex Pension Fund for 2021/22.
- The external auditor's indicative timelines for reporting to the Committee on completion of the 2020/21 and 2021/22 audits.

6. Update on the national scheme for local auditor appointments

Christine Golding, Chief Accountant introduced the report (AGS/25/22) and highlighted the following points:

- The Council had opted into the Public Sector Auditor Appointments Ltd (PSAA) national scheme for auditor appointments for external audit contracts

commencing on 1 April 2023 (and covering the audit of accounts for the financial years 2023/24 to 2027/28).

- 99% of eligible bodies opted into the scheme.
- BDO did not bid in this procurement exercise.
- On 3 October 2023 PSAA had been successful in securing auditors and 6 audit firms were awarded contracts. Ernst and Young would be the Council's 2023/34 auditors.
- A significant fee increase of around 150% was anticipated.

It was clarified the scheme was intended to generate a competitive deal for eligible bodies, the fees for those that did not opt in were not known, however those bodies may have struggled to appoint an external auditor at all due to challenges in the market.

The anticipated fee increase reflected the wider scope of the audit work required under ISA 315 and the increased need for experts. The scheme did not provide 100% assurance that future audit timetables would be met however there had been significant pressure and activity to get Local Authority audits back on track.

Resolved

That the Committee noted the report.

7. Internal Audit and Counter Fraud progress report

Paula Clowes, Head of Assurance introduced the report (AGS/26/22) and highlighted the following points:

- The report had been prepared for the rescheduled September 2022 meeting and therefore only covered the period up to August 2022.
- No 'no assurance' or 'limited assurance' audits has been issued in the period, 3 'good' and 17 'satisfactory' assurance had been issued. Two follow up audits had identified reasonable progress.
- As at 31 August 2022 there were no Critical, 17 Major and 94 Moderate recommendations open. 65 recommendations had been reported as having been implemented during 2022/23.
- The total number of fraud referrals which had been received to date for the 2022/23 year was 105. During that period the work of the Counter Fraud team had resulted in the recovery of £180,979.87, with a further £135,291.23 in recovery.

It was confirmed that the Internal Audit team had the support of senior managers and had received positive engagement with services.

Resolved

That the Committee noted the progress in audit and counter fraud activity.

8. Updated Counter Fraud and Corruption Strategy 2022

The committee received the report (AGS/27/22) and appendix from Paula Clowes, Head of Assurance.

It was confirmed that the strategy is scheduled for review every 2 years and that the report detailed changes from the previous strategy, which were very minimal.

Resolved

That the Counter Fraud and Corruption Strategy 2022 be adopted in the form shown at appendix A to the report.

9. Updated Anti Bribery and Corruption Policy 2022

The committee received the report (AGS/28/22) and appendix from Paula Clowes, Head of Assurance. The report detailed changes from the previous strategy.

It was clarified that there was an expectation that the employee uptake of the relevant e learning would continue to increase following the 2021 refresh and that this data would be included in the next Internal Audit and Counter Fraud progress report.

It was agreed that wording should be added to the 'penalties' section regarding member disqualification in the event of a bribery conviction.

Resolved

That, including the agreed wording regarding member penalties, the Anti Bribery and Corruption Policy 2022 be adopted in the form shown at appendix A to the report.

10. Updated Anti-Money Laundering Policy 2022

The committee received the report (AGS/29/22) and appendix from Paula Clowes, Head of Assurance. The report detailed changes from the previous strategy.

It was agreed that Paula Clowes would report back to the Committee to clarify the process for identifying and risk assessing Politically Exposed Persons or 'PEPs'.

Resolved

That the Anti-Money Laundering Policy 2022 be adopted in the form shown at appendix A to the report.

11. Work Programme (AGS/30/22)

The Work Programme was noted.

12. Date of next Meeting

The date was noted.

Chairman

Report title: 2021/22 Audit Planning Report for Essex County Council	
Report to Audit, Governance and Standards Committee	
Report author: Nicole Wood, Executive Director, Corporate Services	
Date of meeting: 28 November 2022	For: Information
Enquiries to Nicole Wood, Executive Director, Corporate Services email nicole.wood@essex.gov.uk or Christine Golding, Chief Accountant email Christine.golding@essex.gov.uk	
Divisions affected All Essex	

1. Everyone's Essex

- 1.1 The Audit, Governance and Standards Committee has responsibility for approving the Council's Annual Statement of Accounts, and for receiving and considering related reports issued by the Council's External Auditor.
- 1.2 The purpose of this report is to present the External Auditor's 2021/22 Audit Planning Report for Essex County Council, as appended.

2. Recommendations

- 2.1 That the Committee notes the content of the External Auditor's report.

3. Background

- 3.1 The purpose of the Audit Planning Report is to explain how the External Auditor (BDO) intends to carry out their responsibilities as auditor of the Council, other than as the administering authority for the local government pension scheme. Specifically, the Audit Planning Report provides the Committee with a basis to review BDO's approach and scope for the 2021/22 audit, to ensure that they are aligned with the Committee's expectations.
- 3.2 The 2021/22 Audit Planning Report for the Essex Pension Fund was presented to the Committee on **31 October 2022 (AGS/23/22)**. The attached plan summarises BDO's assessment of the key risks driving the development of an effective audit for the Council and outlines the planned audit strategy in response to those risks.
- 3.3 The scope of the audit is determined by the National Audit Office's Code of Audit Practice which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014.

3.4 The plan also summarises BDO's proposed timelines for completion of their audit of the Council, including the audit review of the Council's arrangements to secure value for money in its use of resources.

3.5 BDO welcome the opportunity to discuss the plan with the Committee.

4. Policy context and Outcomes Framework

4.1 The Audit Planning Report explains the approach that BDO intends to take to provide their opinion on the financial statements of the Council and to provide commentary on its arrangements to secure value for money in the use of resources.

5. Financial Implications

5.1 The Audit Planning Report includes a summary of the proposed audit fees for the 2021/22 audit. Whilst the scale fee is consistent with the fee for 2020/21, additional fees are proposed in relation to the 'use of resources' approach, recurring aspects of the audit approach and risk related work specific to 2021/22. Whilst these increases are indicative of the trajectory for external audit fees, the actual increases are subject to further discussion and agreement.

6. Legal Implications

6.1 External audit is a statutory requirement which can only be undertaken by a qualified auditor appointed following the correct legal process.

6.2 If done effectively it can provide assurance that the Council has a sound system of internal controls, that risks are being effectively managed and that money is being spent effectively.

6.3 The legally appointed auditor is entitled to charge statutory fees and also to do further work, and charge further fees, if they consider it necessary in accordance with the legislation.

6.4 A key task of the Audit, Governance and Standards Committee is to review the proposed work plan and suggest any areas that they feel should be looked at as part of the audit.

6.5 It would be usual for the audit planning report to be presented to the Committee before the commencement of the audit work but it is understood that the audit of the 2021/22 accounts is already underway.

7. Staffing and other resource implications

- 7.1 The 2021/22 external audit is being undertaken much later in the financial year than would usually be the case. This inevitably means that much of the audit fieldwork will take place alongside other key finance activities, including setting of the 2023/24 budget and planning and preparing for closure of the 2022/23 Accounts. Officers will, nonetheless, make every effort to support the external auditor to achieve the target dates for completion of the 2021/22 audit.

8. Equality and Diversity implications

- 8.1 There are no equality and diversity implications associated with this report.

9. List of appendices

- 9.1 Appendix 1 – 2021/22 Audit Planning Report for Essex County Council.

10. List of Background Papers

- 10.1 2021/22 Audit Planning Report for Essex Pension Fund ([AGS/23/22](#))



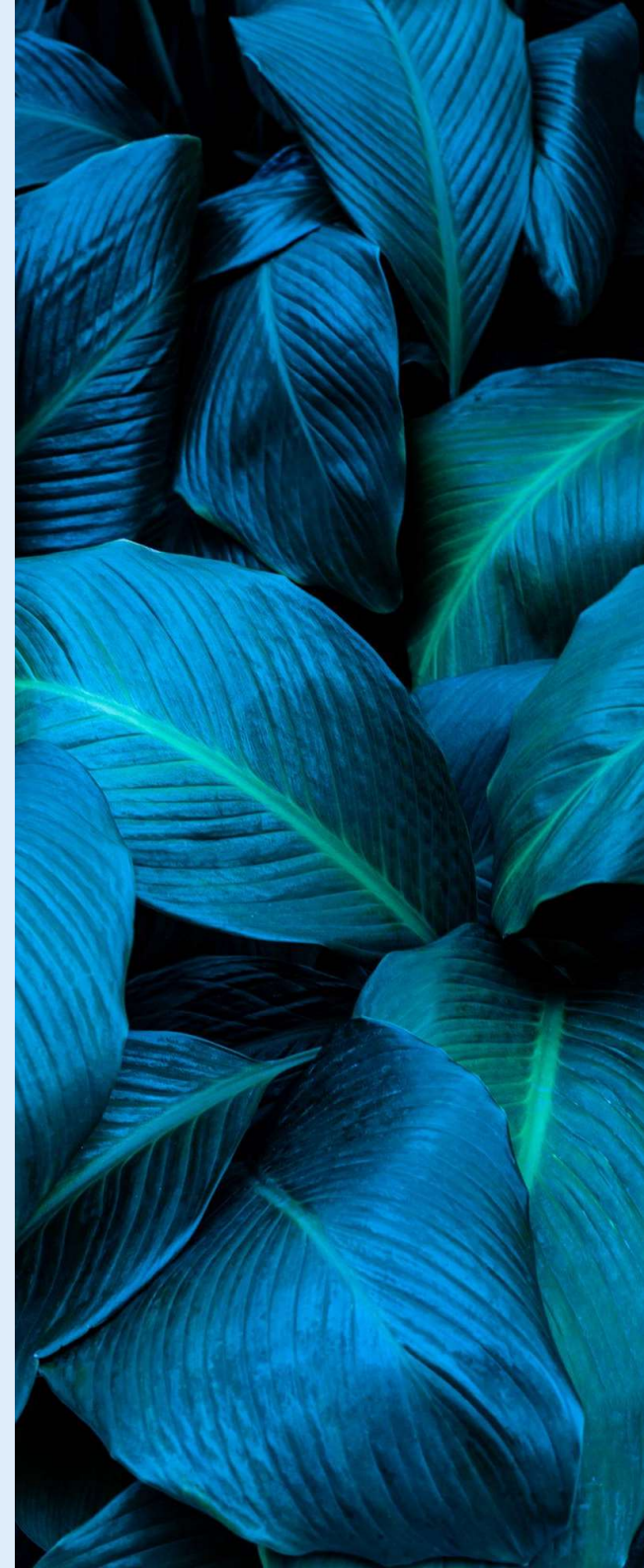
Essex County Council

Audit Planning Report: Year ended 31 March 2022

Report to the Audit, Governance and Standards Committee

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Welcome

Introduction

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

It summarises the planned audit strategy for the year ended 31 March 2022 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these together with the audit timeline.

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

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

We look forward to discussing this plan with you at the Audit, Governance and Standards Committee meeting on 28 November 2022 and to receiving your input on the scope and approach.

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

David Eagles, Partner
For and on behalf of **BDO LLP**, Appointed Auditor
10 November 2022



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The numbers

Executive summary

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

Audit scope

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

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

Materiality

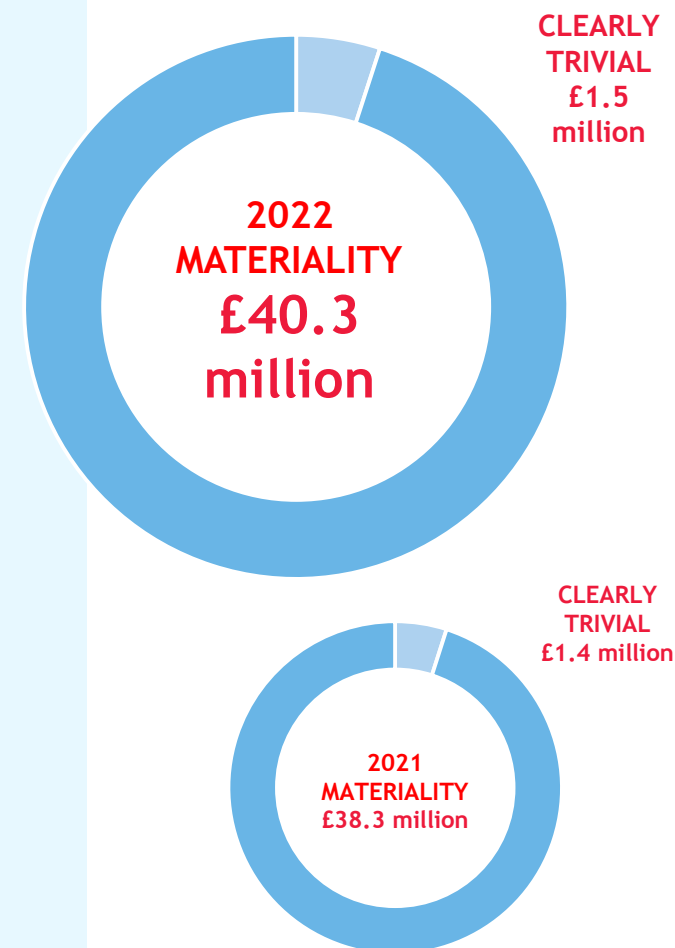
Materiality for the Group is based on 1.75% of gross expenditure and is outlined in the adjacent chart. Component materiality, including that of the Council as a single entity, is detailed on page 8 of this report.

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

Council's responsibilities

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

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



Independence and fees

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Independence

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

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

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

Amendments to proposed fees

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

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

Fee variances

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

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

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

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

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

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

Overview

Audit scope and objectives

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

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

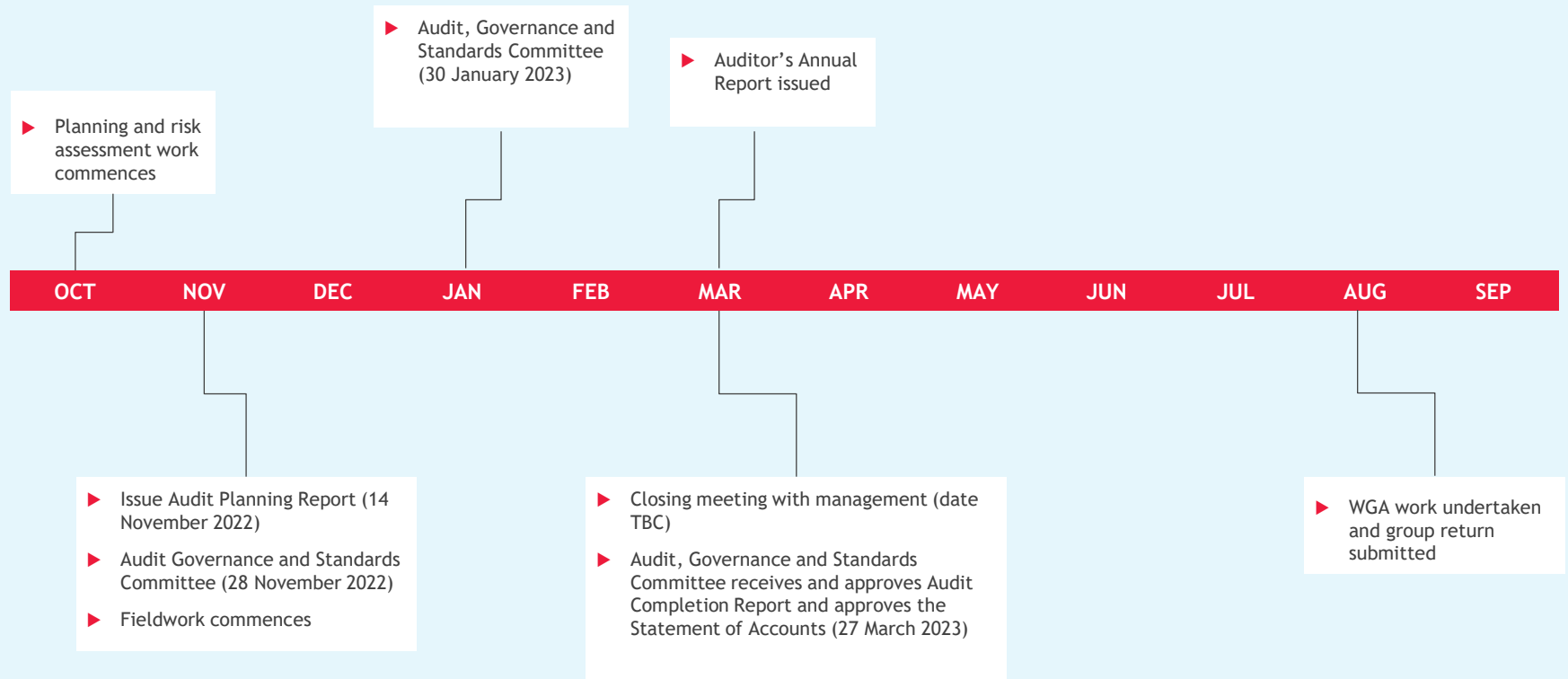
We will communicate any significant changes to our audit strategy, should the need for such change arise.

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

Audit timeline

An overview of the key dates

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Audit scope entities, components and audit risks

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

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

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

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

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Our Audit Strategy is built on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher.

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

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

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

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

Risk 1

Management override of controls

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

Risk detail

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

Planned audit approach

Our audit procedures will include the following:

- A review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT audit specialists to assist with the journal extraction;
- Evaluation of risks arising from automated journals
- Evaluate findings from evaluation of design and implementation of IT general controls
- A review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

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



Key to audit assertions:

C - Completeness

E - Existence

A - Accuracy

V - Valuation

P - Presentation

Risk 2

Fraud in revenue recognition

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

Risk detail

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

Planned audit approach

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

Key to audit assertions

C - Completeness
E - Existence

A - Accuracy
V - Valuation

P - Presentation

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



Risk 3

Expenditure cut-off

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

Risk detail

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

Planned audit approach

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

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



Key to audit assertions

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

Risk 4

Valuation of land and buildings and investment property

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

Risk detail

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

Planned audit approach

Our audit procedures will include the following:

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

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Key to audit assertions

C - Completeness

E - Existence

A - Accuracy

V - Valuation

P - Presentation

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



Risk 5

Value of infrastructure

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

Risk detail

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

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

Planned audit approach

Our audit procedures will include the following:

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

Key to audit assertions

C - Completeness
E - Existence

A - Accuracy
V - Valuation

P - Presentation

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



Risk 6

Valuation of net pension liability

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

Risk detail

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

Planned audit approach

Our audit procedures will include the following:

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

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



Key to audit assertions

C - Completeness

E - Existence

A - Accuracy

V - Valuation

P - Presentation

Risk 7

Implementation of MyOracle

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

Risk detail

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

Planned audit approach

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

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



Key to audit assertions

C - Completeness

E - Existence

A - Accuracy

V - Valuation

P - Presentation

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Code of Audit Practice (the 'Code') requirements

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

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

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

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

Risk of Significant Weakness

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

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

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

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Fraud

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

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

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2021/22 under the circumstances.

Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements.

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

Internal audit

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

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

Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your organisation includes VAT legislation, Employment Taxes, Health Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities.

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Related parties

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

Financial statement disclosures

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

Contingencies

We request input from the Audit, Governance and Standards Committee on any recent claims of which members are aware.

Any other matters

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

Audit of revenue

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

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

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

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

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

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

Irregularities (including fraud)

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

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

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

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- enquiries of management, those charged with governance and the entity's legal advisers
- agreement of the financial statement disclosures to underlying supporting documentation;
- review of minutes of Council and Cabinet meetings throughout the year and of correspondence with regulatory authorities;
- written representations.

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



Understanding your IT environment

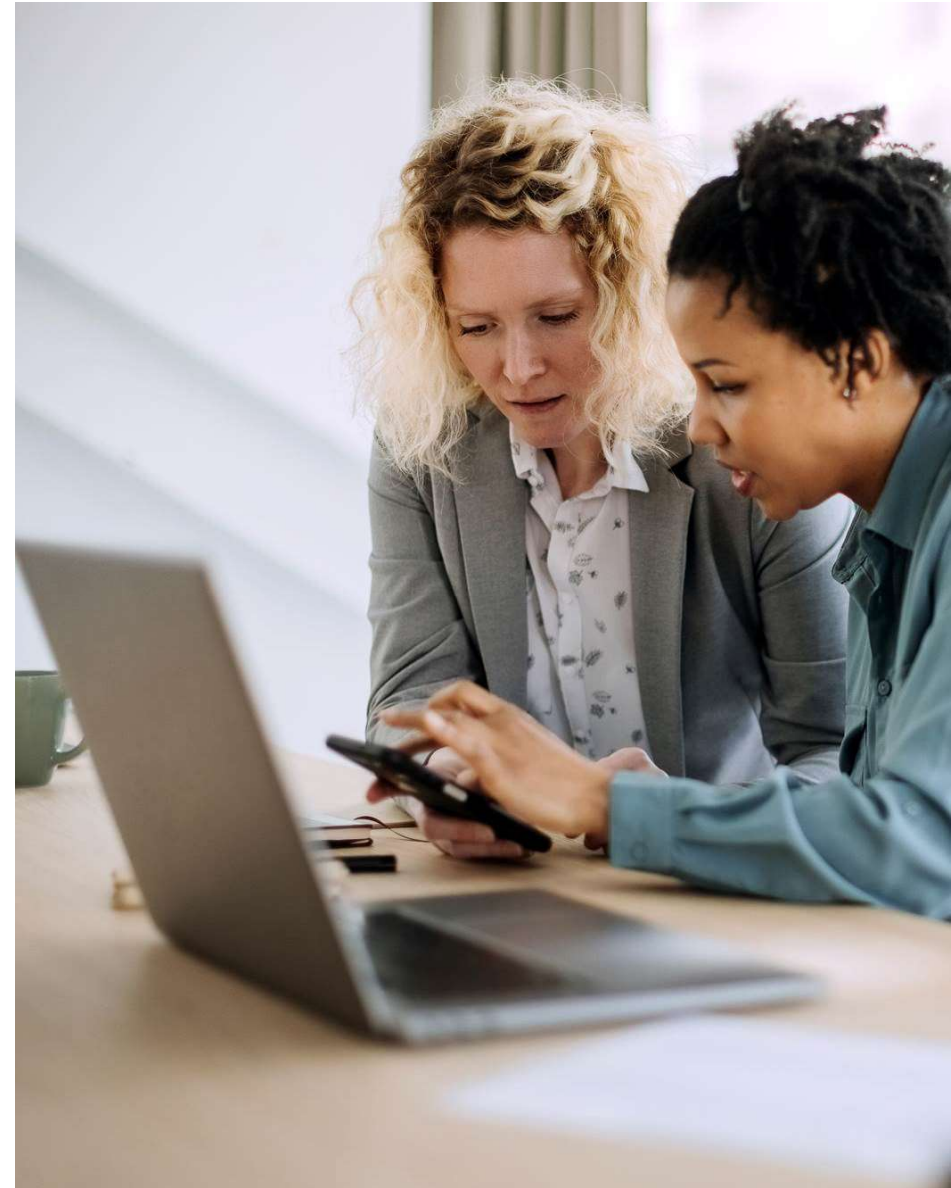
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Understanding your entity's IT environment is a component of the system of internal control which we must evaluate during risk assessment procedures in accordance with ISA 315 (Revised 2019), Identifying and Assessing Risks of Material Misstatement

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

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

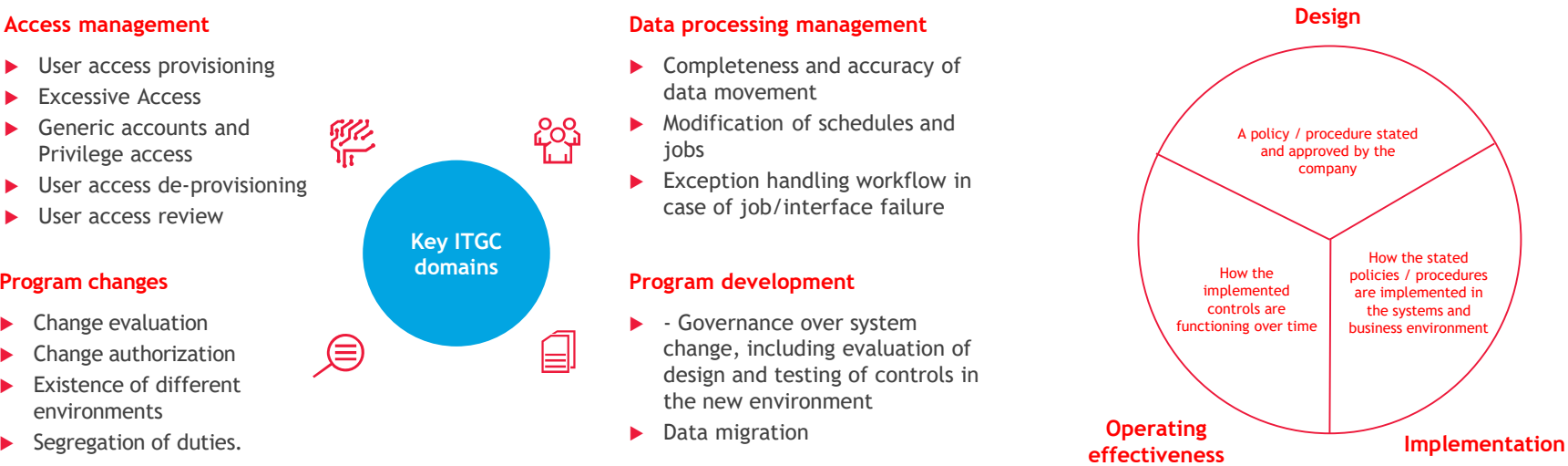


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Based on our understanding of your IT control environment and key business cycles, we will perform procedures over the design and implementation (D&I) of your IT General Controls for the applications and underlying databases, considered to be in scope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



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

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

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Council's responsibilities

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Financial reporting

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

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

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

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

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

Use of resources

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

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

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



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Our responsibilities and reporting - financial reporting

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

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

Our responsibilities and reporting - use of resources

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

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

What we don't report

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



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Those Charged with Governance

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

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

Communication, Meetings and Feedback

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

Planning Report

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

Internal Controls

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

Audit Completion Report

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

Auditor's Annual Report

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

Partner rotation

Independence

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

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

Independence - engagement team rotation

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

Independence - audit quality control

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

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments

Audit scope and objectives

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We would like to draw to your attention the following summary of key changes to standards, regulations and other financing reporting developments, their effective dates and an indication, based on preliminary

discussions with management and our sector understanding, of their possible effect on the Statement of Accounts.

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

Other information

Audit requirements - other information in the annual report

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

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

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

Quality Assurance

Our Quality Ethos

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BDO's quality ethos: bringing audit quality to life

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

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

Where your highest audit quality comes from

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

Audit quality cornerstones

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

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

MINDSET

- Sceptical
- Independent
- Focus on the shareholder as user
- Robustness and moral courage.



KNOWLEDGEABLE, SKILLED PEOPLE

- Knowledge of the business
- Intelligent application of auditing standards
- Intelligent application of accounting standards
- Understanding the control environment.

DILIGENT PROFESSIONAL JUDGEMENTS

- How to assess - benchmarking
- Where to focus - risk-based approach
- How to test - audit strategy
- What to test - materiality and scope.



HIGH QUALITY AUDIT OUTPUTS

- Audit reports
- Management letter
- Audit, Governance and Standards Committee reports
- High quality financial statements.



AQR results 2021/22- An Overview of Corporate Audits

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Overview

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

Firm's Results

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

The AQR found that:

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

Our Response

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

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

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

Investment in Audit Quality

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

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

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

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

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Overview

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

Firm's Results

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

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

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

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

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

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

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

Overview

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

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

Our Response

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

Root cause analysis (RCA)

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

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

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

AQR results 2021/22- Audit quality plan

Driving audit quality - our strategic priority

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Audit Quality Plan

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

Building Blocks of Audit Quality

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

Culture of challenge

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

4 Big Rocks

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

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

AQR results 2021/22- An Overview

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

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

Firm-wide

Audit Quality Initiatives:

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

Monitoring - Internal quality monitoring:

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

Root Cause Analysis ("RCA") process:

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

Engagement Performance - EQCR, consultations and audit documentation:

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

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

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

Audit methodology:

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

AQR results 2021/22- An Overview (continued)

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

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

Engagement level

Audit of Revenue:

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

Scepticism and challenge in key areas of judgement:

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

Audit work on financial services entities:

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

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

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

Independence assessments:

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

For more information:

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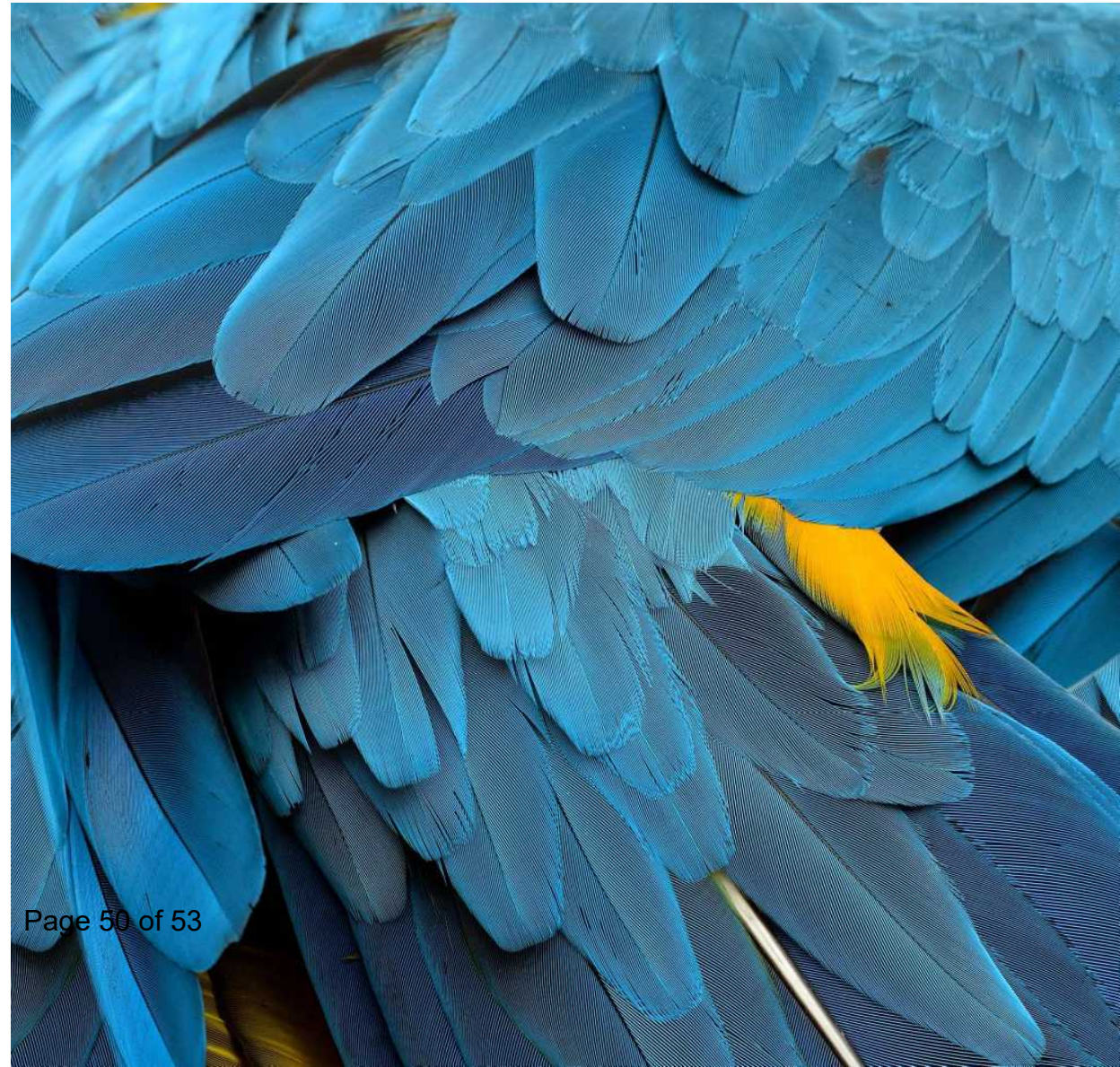
The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior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

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Agenda Item 4
AGS/32/22

Audit, Governance and Standards Committee – Work Programme 2022/23

The Work Programme is a document that is subject to revision as circumstances change

Meeting	Topic	Author
30 January 2023	Internal Audit and Counter Fraud progress reports	Paula Clowes, Head of Assurance
	2020/21 Audit Completion Report - Essex County Council (Final)	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	Approval of 2020/21 Statement of Accounts	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	2020/21 Annual Audit Letter - Auditor's Annual Report	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	Proposals for effectiveness review	Paul Turner, Director, Legal and Assurance
Meeting	Topic	Author
27 March 2023	Audit Plan	Paula Clowes, Head of Assurance
	Audit Charter	Paula Clowes, Head of Assurance
	Regulation of Investigatory Powers Act 2000: Annual Review of Activity	Paula Clowes, Head of Assurance
	Update to the Regulation of Investigatory Powers Act (RIPA) Policy	Paul Turner, Director, Legal and Assurance
	2021/22 Audit Completion Report – Essex County Council	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	2021/22 Audit Completion Report – Essex Pension Fund	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant

	Approval of 2021/22 Statement of Accounts	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	2021/22 External Auditor's Annual Letter – Auditor's Annual Report	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	External Auditor's Audit Plan for Essex County Council – 2022/23	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	External Auditor's Audit Plan for Essex Pension Fund – 2022/23	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	Arrangements for closure of the accounts for 2022/23	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	Progress report on cyber security, following completion of further audit being undertaken in 2022/23	Melanie Hogger, Director, Technology Services
Meeting	Topic	Author
5 June 2023	Head of Audit Opinion	Paula Clowes, Head of Assurance
	2022/23 Statement of Accounts and Annual Governance Statement	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
Meeting	Topic	Author
25 September 2023	Internal Audit and Counter Fraud progress reports	Paula Clowes, Head of Assurance
	2022/23 Audit Completion Report – Essex County Council	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	2022/23 Audit Completion Report – Essex Pension Fund	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant

	Approval of 2022/23 Statement of Accounts	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
Meeting	Topic	Author
18 December	2022/23 External Auditors Annual Audit Letter - Auditor's Annual Report	Nicole Wood, Executive Director, Corporate Services and Christine Golding, Chief Accountant
	Internal Audit and Counter Fraud progress reports	Paula Clowes, Head of Assurance
Meeting	Topic	Author
25 March 2024	Audit Plan	Paula Clowes, Head of Assurance