Report to the Audit, Governance and Standards Committee

ESSEX COUNTY COUNCIL

Audit Completion Report: year ended 31 March 2021

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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards 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 completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. It is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the financial statements 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 Audit, Governance and Standards Committee meeting on 25 January 2024 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.

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.

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

17 January 2024

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

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This summary provides an overview of the audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements of the Group for the year ended 31 March 2021.

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

At the date of issuing this Report, our audit work on the financial statements is substantially complete.

Residual outstanding completion matters are listed on page 35 in the appendices.

We presented our Audit Planning Report to the Audit, Governance and Standards Committee in March 2021. We have added one additional significant risk, relating to the valuation of infrastructure assets. There have been no other significant changes to the planned audit approach or significant audit risks identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's single entity financial statements.

We have no exceptions to report respect of the Council's value for money arrangements.

We will issue our certificate alongside the opinion on the financial statements.

THE NUMBERS
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Final materiality

Group materiality was determined based on gross expenditure.

Changes were made to planning materiality to reflect actual gross expenditure recognised in the statement of accounts presented for audit. The percentage threshold applied remained at 1.75%.

It should be noted that group materiality was set at the same percentage threshold as that for the single entity (i.e. the Council). The monetary threshold (£38.4m) is almost identical, reflecting the limited impact the consolidation of Essex Cares Ltd and Essex Housing Development LLP has on gross expenditure once inter company transactions are eliminated on consolidation, but has been set marginally higher than for the single entity.

Material misstatements

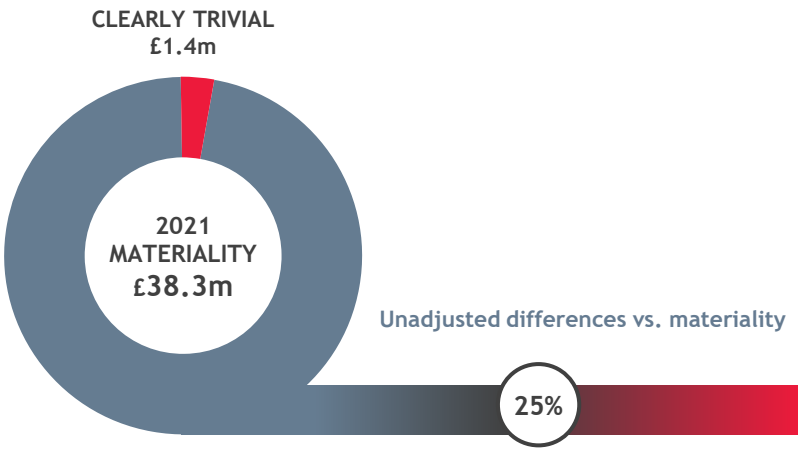
Our work has not identified any material misstatements.

Unadjusted audit differences

We identified three audit adjustments (one brought forward from 2019/20 and two identified in 2020/21) that, if posted, would increase the surplus on the provision of services for the year by £10.081 million. Further details are included on page 19.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.



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Financial reporting

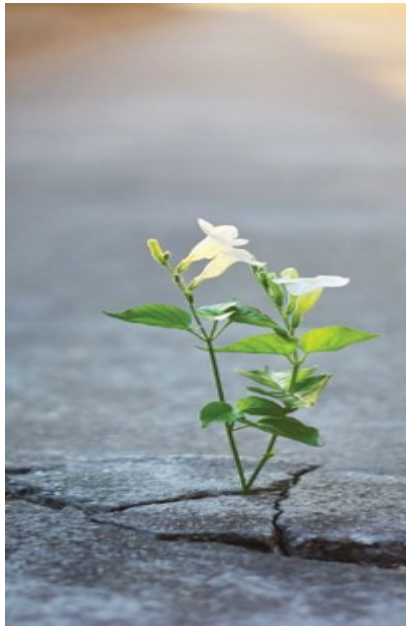
- We have not identified any non-compliance with Group accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, or with the retrospective elements relating to infrastructure included within the 2021/22 Code.
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

Other matters that require discussion or confirmation

- Control deficiencies identified in relation to IT general controls, including:
  - Proactive monitoring of login activities performed by privileged users
  - Administration level access granted to individual whose job role did not require it
  - Absence of database monitoring in the social care finance application
- 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 and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.



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AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 10 March 2021 we assessed the first six matters listed below as being the most significant risks of material misstatement in the financial statements. We have since added the Valuation of Infrastructure assets.

These are the 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	Yes
Revenue recognition	Significant	Yes	No	No	No	No
Expenditure cut-off	Significant	No	No	No	No	No
Valuation of land, buildings and investment properties	Significant	Yes	Yes	No	No	Yes
Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
Waste treatment plant PFI	Significant	Yes	No	No	No	Yes
Valuation of Infrastructure assets	Significant	Yes	Yes	No	No	Yes

Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

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

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

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; determined key risk characteristics to filter the population of journals; and used 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
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our audit procedures on journal entries are complete and we have no matters to report.

Our review of estimates and judgements applied by management, focused on bias, is complete and we have no matters to report.

Our review of the unadjusted audit differences reported on page 19 and 20 has not identified any indication of bias or deliberate misstatement.

Discussion and conclusion

Our audit work has not identified any issues.

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REVENUE RECOGNITION

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 (primarily through the manipulation of financial reporting) to be in respect of the accuracy and existence of revenue grants subject to specific performance conditions.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to supporting documentation from grant paying bodies and checked whether recognition criteria have been met.

Results

Our audit procedures relating to grant income subject to specific conditions are complete. We have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

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EXPENDITURE CUT OFF

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

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

For net-spending bodies in the public sector, there is a 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.

Work performed

We carried out the following planned audit procedures:

- Checked that expenditure is recognised in the correct accounting period by substantively testing a sample of expenditure around year-end.

Results

Our audit procedures relating to expenditure occurring round the year end are complete. We have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

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VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES

The valuation of land, buildings and investment properties 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.

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.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage;
- Reviewed accuracy and completeness of information provided to the valuer, such as rental agreements and floor areas;
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Followed up valuation movements that appeared unusual; and
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remained materially correct.

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VALUATION OF LAND, BUILDINGS AND INVESTMENT PROPERTIES

The valuation of land, buildings and investment properties 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

Our audit procedures relating to the valuation of land, buildings and investment properties is complete.

The instructions provided to the valuer were consistent with our expectations and we concluded that we were able to rely on the management expert.

The basis of valuation for assets valued in the year was appropriate. We have no matters to report regarding inputs into the valuations.

We confirmed that the assumptions used by the valuer were consistent with our expectations.

Where valuation movements for individual properties were outside of our expected range, we reviewed property specific inputs to confirm that the valuation movement was supported and, where appropriate, corroborated these inputs to supporting evidence.

We have confirmed that the Council undertook a review of properties not captured by the in year valuation programme and, where appropriate, applied indexation to ensure values reported at the balance sheet date are materially correct.

Discussion and conclusion

Our audit work did not identify any issues.

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VALUATION OF PENSION LIABILITY

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 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.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the competence of the management expert (actuary);
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls in place for providing accurate membership data to the actuary;
- 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; and
- Checked that any significant changes in membership data has been communicated to the actuary.

Results

Our audit procedures on the valuation of the pension liability are complete and we have no matters to report.

The disclosures in the financial statements agree to the information provided by the pension fund actuary. We concluded that we were able to rely on the management expert.

We have reviewed the reasonableness of the assumptions used by the actuary in the calculations and have no matters to report.

We have reviewed the controls in place for providing accurate membership data to the actuary and have no matters to report.

Discussion and conclusion

Our audit work did not identify any issues.

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WASTE TREATMENT PLANT PFI

There is a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.

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 Council was party to a PFI arrangement for the design, construction and operation of a waste treatment plant. As disclosed in the Council's previous years' Statements of Accounts, construction of the plant commenced in May 2013 and achieved the Readiness Date in November 2014. The Facility remained in the commissioning phase and the contractual long stop date has passed. The Council and operator of the facility were utilising contractual and dispute mechanism to resolve issues which occurred during the commissioning phase.

There was a risk that assets and liabilities associated with the Waste Treatment Plant PFI are treated incorrectly in the Council's accounts.

Work performed

We carried out the following planned audit procedures:

- Confirmed that the Council's accounting treatment of the arrangement is consistent with the terms set out in the contract and the requirements of CIPFA's Code of Practice on Local Authority Accounting; and
- Considered the basis for any judgements made by management in determining the treatment of the assets and liabilities associated with the arrangement.

Results

In the prior year, as reported in our 2019/20 completion report, we concluded that the Council's accounting treatment of the arrangement was consistent with the terms set out in the contract and the requirements of CIPFA's Code of Practice on Local Authority Accounting.

Our procedures have not identified any matters which are indicative of the need to amend the accounting treatment applied in previous years. We have reviewed the disclosures made in respect of contingencies and have concluded that they are not inappropriate.

We held discussions with the Council's legal team and did not identify any issues which impact the above assessment.

Discussion and conclusion

Subsequent to the year end, although the contract remains in place, it was amended to reflect a settlement being reached between the parties, following acknowledgement by UBB (Essex Waste) Ltd that the Facility did not meet the contractual specifications.

This amendment represents a non-adjusting post balance sheet event (PBSE). Consequently, the original contingent liability disclosures as at 31 March 2021 will be retained, but referenced to PBSE disclosures.

Our audit work has not identified any other issues.

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VALUATION OF INFRASTRUCTURE ASSETS

There is a risk that the value of Infrastructure assets in the Council's accounts is materially misstated.

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 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.

In common with other infrastructure holding councils, Essex records, and holds records on, spend on infrastructure on a project basis rather than at a granular separable asset or specific location basis. This position means that when assets are replaced/ refurbished and/or wholly taken out of use, it is not possible to identify the relevant cost or accumulated depreciation of the assets that should be de-recognised. Consequently, gross cost and gross depreciation will be overstated, and this is expected to be material.

Further, if assets are replaced sooner than their estimated useful economic lives, then there would be a residual net book value impact. This exposure could be material (i.e. infrastructure assets shown in the balance sheet could be materially overstated).

The Net Book Value (NBV) of infrastructure assets at 31/3/21 was £1.227bn and it is therefore highly material to the financial statements (financial statements materiality is £38.3m).

National developments

Following extensive engagement between February 2022 and January 2023:

- CIPFA/LASAAC issued an updated accounting Code removing the need to disclose gross cost and accumulated depreciation along with an application guidance Bulletin;
- The Government issued a Statutory Instrument addressing opening balance uncertainties and allowing for an assumption of nil net book value of assets at the point of replacement.

VALUATION OF INFRASTRUCTURE ASSETS

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There is a risk that the value of Infrastructure assets in the Council's accounts is materially misstated.

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	■

Work performed

We carried out the following audit procedures:

- Understand and document the nature of the infrastructure balance held by the Council
- Assessed the application of statutory override
- Considered updates made to the Infrastructure assets accounting policy
- Assessed the Council's application of the retrospective update to the 2021/22 CIPFA Code
- Assessed the reasonableness and revision of Useful Economic Lives (UELs), including consequent changes to depreciation applied
- Obtained the Council's minimum revenue provision (MRP) policy for 2020/21 and considered whether the revisions to infrastructure UELs have implications for the need for the Council to set aside a prudent amount, as required by the regulations

Findings

We have reviewed the asset register to establish how the Council recognises and measures infrastructure assets for accounting purposes. We have also established the different types of infrastructure held and the value of any bulk transfers.

We have reviewed the Council's methodology for revisiting its UELs, which comprises the following elements:

- Analysis of publicly available Department for Transport data
- A comparison of the value of annual additions and depreciation
- Comparison to UK Roads Leadership Group data
- Highways team analysis of inventory data to determine UELs.

Conclusions

We have confirmed that:

- the Council has correctly applied the update to the Code in relation to amendments to the infrastructure element of the PPE disclosure (specifically the removal of gross book value and accumulated depreciation and an explanation of why these balances are omitted)
- the Council has applied the provisions of the statutory override
- the Council has updated its accounting policy to reflect the application of the statutory override and included disclosure required by the Code updates and guidance in CIPFA Bulletin 12
- the revisions to UEL are a change in accounting estimate rather than a correction of a prior period adjustment
- the revised UELs determined by the Council as a result of its review have been correctly applied and the revised depreciation charge is arithmetically correct (an additional £8.7 million – see page 22).

We are satisfied that the assumptions used and underlying data are appropriate for the purposes of determining whether UELs previously applied to infrastructure are appropriate.

We are satisfied that the MRP charge is materially correct (and so does not need to be amended). However, the UELs used to calculate MRP are not wholly consistent with those used to calculate depreciation, so MRP calculated is more prudent than the level that would result from using the depreciation UELs.

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The following are other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Reinforced Autoclaved Aerated Concrete (RAAC)	RAAC is a lightweight, aerated material used as an alternative to traditional concrete. It was mainly used within roofs, walls and floors between the 1950s and 1990s. RAAC has different material properties to traditional concrete and has a shorter expected life, which is estimated to be around 30 years. Over the last few years additional concerns have been raised about its durability following the sudden collapse of RAAC panels in roofs which had previously been considered safe. This has resulted in the recent action by the UK Government and publicity surrounding the closures of some schools. The Council has undertaken a review of assets potentially involving RAAC. For schools, of the 59 reported as being impacted, only 15 were LEA schools, and only 10 are on balance sheet with the others being diocese owned/foundation, meaning they are off balance sheet. The assessed potential financial impact is not material as at 31 March 2021. Additional disclosures have been added to the Statement of Accounts.
Presentation of income on the face of the Comprehensive Income and Expenditure Statement (CIES).	The face of the CIES presents income from the provision of services in two columns; “Government Grants” and “Other income”. Whilst this presentation facilitates the reconciliation of the two types of income to other areas of the Statement of Accounts, and also provides segmental reporting information, management should consider the addition of a total income column to aid comparability with statements of accounts prepared by other local authorities.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the Council's 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 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 the Audit Planning Report on 22 March 2021.

Laws and regulations

The most significant considerations for your organisation are the:

- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation
- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 – this is specifically in respect of the statutory override for infrastructure assets accounting.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

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.

We did not identify any issues in connection with related parties.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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

There are three unadjusted audit difference identified by our audit work which would increase the surplus on the provision of services for the year of £24 million by £10.081 million. The impact on net assets as at 31 March 2021 is an increase of £10.081 million.

In the prior year, we reported an unadjusted projected misstatement of £2.195 million, of which £2.025 million arose following comparison of estimates made by the Council when preparing the 2019/20 accounts to the supplier invoice subsequently received (the actual value of differences identified from the sample selected was £78,814). This resulted in a projected overstatement of expenditure in the prior year.

Misstatement 2 is a projected misstatement, based on the extrapolation of an error identified in our expenditure sample. Our testing identified that a sample item with a value of £617 related to 2019/20 but had not been accrued for, resulting in the expenditure being incorrectly included in 2020/21. Extrapolation of this error produced a projected misstatement of £9.724 million. Extrapolation is based on the assumption that the error rate identified from sampling would also be replicated across the whole untested population – it is not stating that there are confirmed, actual errors of this value.

Misstatement 3 is a projected misstatement, based on the extrapolation of an error identified in our payables sample. Our testing identified that 4 samples items that were overstated with cumulative value of £1.064 million, resulting in the expenditure being overstated in 2020/21. Extrapolation of this error produced a projected misstatement of £2.552 million.

When the above unadjusted misstatements are combined with the brought forward error from the previous year, the net impact is an increase in the surplus on the provision of services of £10.081 million.

You consider the unadjusted audit differences to be immaterial in the context of the financial statements as a whole.

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Surplus on the provision of services for the year before adjustments	(24,302)				
1: Impact of brought forward unadjusted error					
DR Expenditure	2,195	2,195			
CR General fund balance as at 1 April 2020					(2,195)
2: Projected overstatement of expenditure due to absence of accrual of 2019/20 costs					
DR General fund balance as at 1 April 2020				9,724	
CR Expenditure	(9,724)		(9,724)		
3: Projected overstatement of creditors					
DR Creditors				2,552	
Cr Expenditure	(2,552)		(2,552)		
Total unadjusted audit differences	**(10,081)**	**2,195**	**(12,276)**	**12,276**	**(2,195)**
Surplus on the provision of services for the year if above issues adjusted	**(34,383)**				

Further details relating to the impact of the brought forward adjustment of £2.195 million are included in our 2019-20 Audit Completion Report. This adjustment only affects the opening balance of general fund at 1 April 2020 and has no impact on the value on the short term creditors balance as at 31 March 2021. However, this adjustment affects the value of expenditure on services recognised in the Comprehensive Income and Expenditure Statement (the overstatement of the general fund balance at 1 April 2021 means that expenditure on services is understated by the same amount).

In our 2019/20 audit completion report, we reported an understatement relating to the value of specialised asset carrying values. The value reported in 2019/20 included an element of sensitivity to give a maximum estimated understatement. Removing the sensitivity element of the reported misstatement gives an understatement of £5.293 million. This affects the opening land and building balances and associated revaluation reserve balances at 1 April 2020 only. As there is no impact on balances at 31 March 2021, this prior year unadjusted audit difference has not been included in the table above.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

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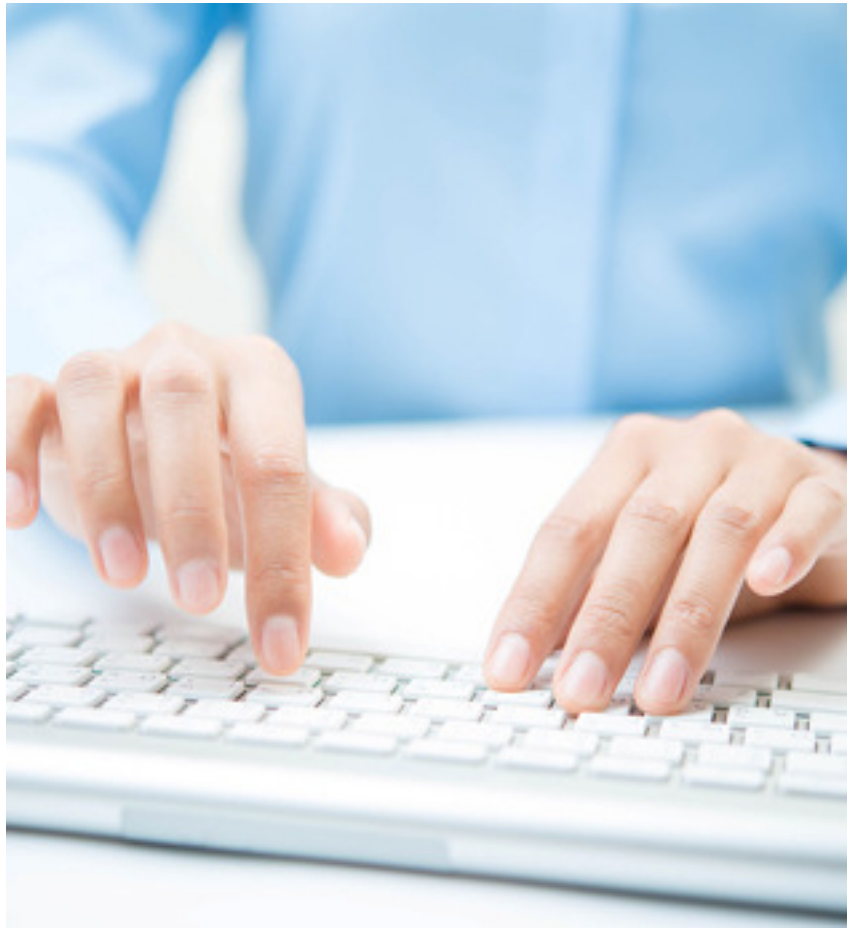

There were four audit differences identified by our audit work that were adjusted by management.

Whilst the adjustment related to depreciation on infrastructure assets reduced the surplus on the provision of services, because this is reversed out as not applicable to the statutory funding basis, there was no impact on general fund balance.

The first difference relates to the inclusion of external body invoices (ie those relating to entities where the Council acts as an administering authority and processes transactions on behalf of those entities) which were unpaid at 31 March 2021 being included in debtors in error. This resulted in the overstatement of the creditor raised for cash held by the Council on behalf of the external bodies. Short term debtors and creditors were both overstated by £7.168 million.

The second audit difference relates to the misclassification of a long term grant receipt in advance as short term. Long term grants received in advance were understated by £3 million and short term grants received in advance are overstated by the same amount.

The third audit difference relates to an increase in infrastructure asset depreciation expenditure due to the revision of Useful Economic Lives (UELs). The UELs for elements of infrastructure assets were revised following the matters highlighted at page 15 which led to an decrease in overall UELs for infrastructure assets.

The fourth and final difference related to the reclassification of £6.413 million between income and grants on the face of the CIES (relating to compensation for loss of income grant received during the Covid pandemic period) which was incorrectly coded as income rather than as a grant. This adjustment had no net impact and also did not change the Health and Adult Social Care line in the CIES, so is not listed in the table overleaf.

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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Surplus on the provision of services for the year before adjustments	(33,001)				
Adjustment 1: External body invoices incorrectly included in debtors control account at year end					
DR Creditors				7,168	
CR Debtors					(7,168)
Adjustment 2: Reclassification of capital grant receipt in advance from short term to long term					
DR Capital grants received in advance – short term				3,000	
CR Capital grants received in advance – long term					(3,000)
Adjustment 3: Increase in Infrastructure asset depreciation due to revision (decrease) of UELs.					
Dr Infrastructure expenditure	8,699	8,699			
Cr Infrastructure assets					(8,699)
Total Adjusted audit differences	8,699	8,699		10,168	(18,867)
Adjusted surplus on the provision of services for the year	(24,302)				

The above adjustments have no impact on the general fund balance reported at 31 March 2021. The impact reported in the Movement in Reserves Statement is an increase in Total Comprehensive Income & Expenditure by £8.699m and a comparative increase in Adjustments between accounting basis & funding under regulations.

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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.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

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The Council is normally required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are normally required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

Given delays in finalising this audit (and a volume of others nationally), the requirement to audit the DCT has been lifted.

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New Code of Audit Practice ("Code")

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

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

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

Risk of Significant Weakness

We have no exceptions to report at this stage in respect of the Council's value for money arrangements, and this position will be reflected in the opinion to be issued with the Statement of Accounts.

We will report the results of our work in our Auditor's Annual Report, which is to be presented to the Audit, Governance and Standards Committee on 25 January 2024 alongside this Audit Completion Report.

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OTHER DEFICIENCIES

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
IT general controls	There has not been any proactive monitoring of the login activities performed by privileged users. There is an inherent risk that without independent monitoring, the appropriateness of system administrative activity is dependent on the motivation of the individual. There is a greater risk that unauthorised transaction activity is performed and not detected.	Implement audit logging that records activity performed by administrative accounts at application and database level. Administrator activity should be independently monitored, investigated as appropriate and formally signed off by an independent reviewer.	The Council agrees that it is best practice to have proactive, independent monitoring in place for each of its key finance systems. It has subsequently implemented this for one of its key systems and is investigating the feasibility of it for the remainder.
IT general controls	Upon review of the privileged accounts for Oracle, we identified one individual in the Council with administration level access when their job role (which involved processing and monitoring of transactions) did not require it. There is an inherent segregation of duties risk when an individual has administrative access rights to a system as well as a transaction processing / monitoring role on that system.	Assign administrative privileges to an independent individual with no transaction processing or monitoring role.	The Council agrees that no user should have both administrative and transactional level access and has accordingly removed the administrator access from the identified individual. User permissions have been reviewed as part of the implementation of My Oracle, and will be kept under review on an ongoing basis.

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OTHER DEFICIENCIES 2

Area	Observation & implication	Recommendation	Management response
IT general controls	Upon review of the underlying database of A4W, we noted that there is no database auditing enabled. There is a risk that actions are not appropriately being recorded and reviewed, which may lead unauthorised changes to database settings or data.	Enable the auditing parameter within the SQL database. There should be active monitoring or periodic reviews performed of key information that has been logged to assess any unusual/unauthorised activity.	The decision was taken not to enable auditing on the A4W database due to performance issues. By way of assurance though, only the 3 database administrators who currently work for ECC have access to the A4W database. Our current live project is to upgrade and re-host A4W (with the supplier Servelec). As part of this project we will investigate whether it is possible to enable auditing without degrading the system performance. The Council agrees that it is best practice to enable database auditing.

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Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group'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.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Irregularities, including fraud

Our report will explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

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.

Use of resources

We have no matters to report in relation to the Council's value for money arrangements.

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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 2021.

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 Audit, Governance and Standards 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 and the Group.

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 and the Group.

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

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FEES

Fees summary	2020/21 Planned £	2019/20 Actual £
Audit fee		
• Code audit fee: consolidated Group and single-entity financial statements and use of resources (for 2019/20) [1]	134,420	134,420
• Additional audit fee: specific risks	-	3,000
• Additional audit fee: Covid-19 remote working [2]	TBC	-
• Additional audit fee: new Use of Resources approach [3]	TBC	-
• Additional audit fee – Infrastructure assets issue	TBC	N/A
• Reduced audit fee – no WGA audit required	(TBC)	N/A
Total Code audit fee	**TBC**	**137,420**
Fees for reporting on government grants:		
• Teachers' pensions return	12,250	12,000
Total fees	**TBC**	**149,420**

[1] The Code fee remains the PSAA Scale plus the £8,155 added from 2019/20 reflecting the increased expectations relating to the work necessary to audit valuations of non-current assets, pension liabilities and group accounts.

[2] **Covid-related costs**

Our Plan included an estimate of the additional resource time and costs necessary when audits are undertaken remotely of £20,000. This 15% is at the lowest end of the 15-20% range experienced by BDO and the other audit firms. Given we were able to undertake some key work on site, the time estimated should reduce and the fee level decrease accordingly.

[3] **Use of Resources approach**

There is no prior period baseline to accurately quantify fees for this work because the approach, including reporting requirements, for 2020/21 has changed.

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OUR RESPONSIBILITIES

Responsibilities and reporting

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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 consolidated and single-entity financial statements. We report our opinion on the financial statements to officers 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 by exception any significant weaknesses identified by our work on the Council's value for money arrangements and a summary of associated recommendations made.

What we don't report

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

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ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	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.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.
	Group matters	
6	Limitations on the audit where information was restricted.	No exceptions to note.
8	Any fraud or suspected fraud at group or component level.	No exceptions to note.

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COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

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 TCWG of the Council and the Group, we consider TCWG to be informed about matters relevant to their two subsidiaries. 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 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	10 March 2021	Audit, Governance and Standards Committee
Audit progress reports	Throughout the course of the audit	Audit, Governance and Standards Committee
Audit Completion Report	25 January 2024	Audit, Governance and Standards Committee
Auditor's Annual Report	25 January 2024	Audit, Governance and Standards Committee

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We are in the process of completing our audit work in respect of the financial statements for the year ended 31 March 2021.

The following matters are outstanding at the date of this Report and could impact our audit opinion. We will update you on their current status at the Audit, Governance and Standards Committee meeting on 25 January 2024 at which this Report is considered:

- Final EQR clearance
- File completion matters
- Review of final version of Statement of Accounts to ensure arithmetical accuracy, internal consistency and that agreed disclosure amendments have been correctly processed
- Subsequent events review (this will need to be refreshed up to the point of issuing the opinion, so is linked to the infrastructure issue timeline)
- Letter of Representation, as attached in Appendix D (draft) to be approved and signed.

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DRAFT LETTER OF REPRESENTATION

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Essex County Council for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the Group and the Council's financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Executive Director, Corporate Services has fulfilled her responsibilities for the preparation and presentation of the Group and the Council 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 Group and the Council as of 31 March 2021 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 Group and 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 Group and 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 Group and 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 (PBSE)

With the exception of the issue relating to Reinforced Autoclaved Aerated Concrete (RAAC) in schools, for which a PBSE disclosure has been added to the Statement of Accounts, 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.

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DRAFT LETTER OF REPRESENTATION 2

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 37 to the financial statements, there were no loans, transactions or arrangements between any Group entity 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 consolidated Group and Council financial statements.

Accounting estimates

a) Pension fund assumptions

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:

- RPI increase 3.2%
- CPI increase 2.8%
- Salary increase 3.8%
- Pension increase 2.8%
- Discount rate 2.00%
- Mortality: Current pensioners - male 21.6 years and female 23.6 years / future pensioners - male 22.9 years and female 25.1 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

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b) Valuation of land and buildings, infrastructure assets and investment property

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

We confirm that the valuations applied to 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 the useful economic lives of infrastructure assets, and their constituent components, used in the valuation of infrastructure assets, and the calculation of the depreciation charge for the year, are reasonable.

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

Nicole Wood
Executive Director Corporate Services

XX January 2024

Councillor Anthony Hedley
Chair of the Audit, Governance and Standards Committee

XX January 2024

AUDIT QUALITY

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

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