Report to the Governance and Audit Committee

COLCHESTER BOROUGH COUNCIL

Audit Completion Report: year ended 31 March 2020

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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Governance and Audit 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 2020, specific audit findings and areas requiring further discussion and/or the attention of the Governance and Audit Committee. At the completion stage of the audit it is essential that we engage with the Governance and Audit Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

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

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

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

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

Lisa Clampin

12 November 2020

Lisa Clampin
Engagement lead

t: 01473 320716
m:07791397160
e: lisa.clampin@bdo.co.uk

Alison Langridge
Audit Manager

t: 01473 320752
e: alison.langridge@bdo.co.uk

Tawanda Mutenga
Audit senior

t: 01473 320711
e: tawanda.mutenga@bdo.co.uk

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

OVERVIEW

Executive summary

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

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

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2020 by the deadline of the 30 November 2020.

Outstanding matters are listed on page 44 in the appendices.

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

No restrictions were placed on our work.

Audit report

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

The financial statements include disclosures about a material valuation uncertainty in respect of Property, Plant and Equipment, and 'Property' assets within the Local Government Pension Scheme Assets, due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements. We have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

THE NUMBERS

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Final materiality

Group final materiality was determined based on gross expenditure.

Changes were made to planning materiality as a result of the gross expenditure being higher in the draft financial statements compared to previous years.

Material misstatements

Our audit identified one material disclosure error within the note which details the maturity analysis of financial liabilities, Note 20 in the draft financial statements.

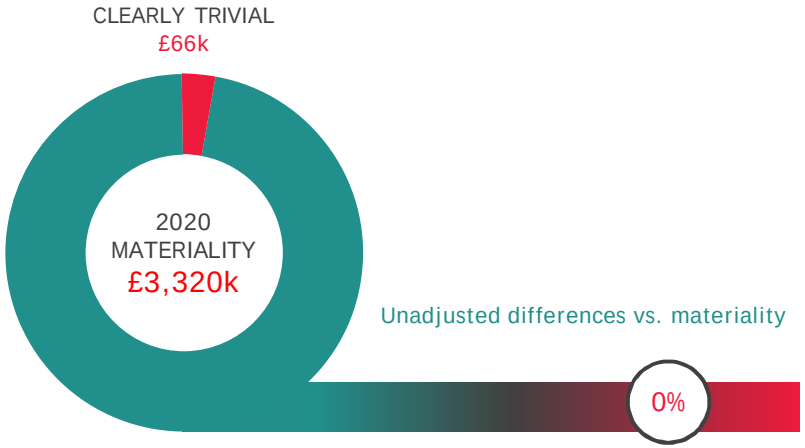
Management has amended the financial statements for this issue, which has no effect on the deficit on the provision of services for the year.

Unadjusted audit differences

We did not identify any audit differences that have not been adjusted for.

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

Other matters that require discussion or confirmation

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

Independence

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

CORONAVIRUS

The effects on year-end reporting and auditing

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

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

Going concern

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

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

- The assessment of going concern directors are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the directors consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

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

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

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CORONAVIRUS

The effects on year-end reporting and auditing

Financial reporting implications

Grant funding

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

Valuations of financial and non-financial assets and liabilities:

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

Subsequent events disclosure

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

Leases:

IFRS 16 Leases will be effective from 1 April 2021 (a further one year deferral).

Narrative reporting implications

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

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

Other guidance

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

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

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

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

The guide is available through the following link:

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

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CORONAVIRUS

The effects on year-end reporting and auditing

Implications for auditors

Risk assessment:

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

Sufficient and appropriate audit evidence:

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

OUR METHODOLOGY

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

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

We carried out a combination of substantive and systems testing on the following areas in the CIES:

- Expenditure
- Housing Benefits

In all other areas we carried out a wholly substantive approach to testing. This is consistent with the approach that we undertook in the previous year.

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AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 17 February 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	Yes
Revenue Recognition	Significant	No	No	No	No	No
Expenditure cut -off	Significant	No	No	No	No	No
Valuation of non-current assets	Significant	Yes	Yes			Yes
Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
eFinancials General Ledger System upgrade	Significant	No	No	No	No	No

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

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

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We 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.
- Considered the operation of the control environment to ensure that in light of remote working and response to COVID-19 there has been no lapse in the operation of the control environment.

Results

Our audit work on journals is complete and we have no matters to report.

We have assessed and corroborated significant management estimates and judgements in the following key areas:

- Valuation of land and buildings
- Pension liability
- Non-domestic rates appeals provision
- Non-collection of receivables
- Depreciation/Amortisation

We have found no evidence of management override or bias for these estimates.

Our review of unadjusted audit differences did not identify any indications of bias or deliberate misstatement.

Our review of the control environment found there had been no lapse in the operation of the control environment

Discussion and conclusion

Our audit work did not identify 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 to be in respect of the accuracy and existence of revenue grants which have conditions attached.

Work performed

We tested an increased sample of grants subject to performance conditions to confirm that the conditions of the grant had been met before the income was recognised in the CIES.

Results

We carried out two sample tests:

- A sample of items that had been credited to services
- A sample of items credited to taxation and non specific grant income
- The correct accounting treatment had been applied dependent upon the status of conditions attached to the grant.

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 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.

Work performed

We checked that expenditure is recognised in the correct accounting period by substantively testing expenditure around year-end.

Results

We substantively tested expenditure transactions throughout the year and around year end to check that expenditure is recognised in the correct accounting period, is classified correctly and accurately recorded.

We used a lower sample selection threshold for testing than we would if the risk had not been significant.

We then carried out top up testing as part of our subsequent events work to cover the period from fieldwork to the date of signing.

Discussion and conclusion

Our audit work to date has not identified any issues.

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VALUATION OF NON CURRENT ASSETS

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

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

Risk description

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

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 can rely on the management expert
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage
- Reviewed the accuracy and completeness of information provided to the valuer, such as rental agreements and sizes
- Reviewed the assumptions used by the valuer and movements against relevant indices for similar classes of assets
- Followed up valuation movements that appeared unusual
- Confirmed that the assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

Results

The Council appointed external valuers to carry out a number of revaluations :

- A sample of general fund properties as at 1 December 2019 with the year-end portfolio review performed as at 31 March 2020.
- Council dwellings and Homeless properties as at 31 March 2020.
- All surplus assets and investment properties as at 31 March 2020.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.

We reviewed the valuations provided and the valuation methodology applied and, in all cases confirmed that the basis for valuations is appropriate based on Code requirements for all assets. Council dwellings are valued using existing use prices discounted for social housing using the appropriate social housing discount factor, other land and buildings using depreciated replacement cost (DRC) and investment properties at Fair Value.

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VALUATION OF NON CURRENT ASSETS

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

Results and discussion

We also reviewed valuation movements against independent data showing indices of price movements for similar classes of assets. We followed up valuation movements that appeared unusual against indices, or any assets which had material movements since the last valuation.

Council dwellings £377.28 million (EUV)

The external valuer provided the Council with a valuation as at 31 March 2020 on a beacon basis, resulting in an increase of 1.73% on the total value and net revaluation gains of £6.2 million. Land registry data showed a 1.9% increase in property prices in the Eastern Region, comparative information for similar residential properties in the area which is more specific to Colchester have also been used to inform the valuations. This is supported by Gerard Eve indices which suggest 1.6% increase for residential properties in the Eastern region. We used these two pieces of benchmarking data to set a range of 1.6% to 1.9%, the increase of 1.73% is therefore within the range. We are satisfied with the valuer's explanations and that the value of council dwellings is not materially misstated. The valuations are caveated by an uncertainty clause and this is discussed below.

Other land and buildings £105.3 million (DRC/EUV)

The Council commissioned valuations on general fund assets totalling £105 million during the year.

The overall increase in other land and buildings was 3.0%, compared to a 1.9% increase indicated by regional trends of property prices in the Eastern region as per Gerald Eve.

We compared each class of asset to an appropriate index for each class of asset and evidenced that the total variance to expectation was not material. For those sampled assets outside the range we obtained explanations for movements and concluded these to be satisfactory.

We have agreed all floor and land areas to supporting floor plans.

Carparks have been valued using the income generated by each carpark and the number of parking spaces. We have obtained justification and challenged the valuer on the assumptions that have been used in the calculation. We consider these to be reasonable.

We have agreed this information to records held by the Council.

Other land and buildings -not revalued in the year

Although all other land and buildings assets are revalued on a five year rolling programme, management also made an assessment as to whether there had been a material change in the value of assets during the intervening years. Each material asset is revalued every year.

We have just completed our procedures in this area and the work needs to be reviewed by senior members in the team. A verbal update will be provided to the Committee on the results of this work.

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VALUATION OF NON CURRENT ASSETS

Surplus assets £27 million (Market Value)

The Council commissioned valuations on surplus assets totalling £27m during the year.

The overall increase in surplus assets was 158%.

The increase mainly relates to one asset which was previously a farm but now has various permissions for development. We have reviewed the information provided by the valuer compared this to published industrial land prices and consider the valuation to be reasonable.

Investment properties £39.05 million (Fair Value)

All investment properties were re-valued at 31 March 2020. For these assets, we agreed the rental values used in the calculations with the signed rental agreements and sufficient explanations were provided for any variances. We also set an expectation for the yield prices using market trend data and compared these to the values used in the calculations.

Overall Investment properties increased in value by 3.5%, compared to a 1.9% increase indicated by regional trends of property prices in the Eastern region as per Gerald Eve. We queried specific assets that had movements outside of a reasonable range and sought explanations for this position, we concluded these explanations to be satisfactory.

Material uncertainty

The valuer's have included a material uncertainty statement in their final valuation reports in respect of the year-end valuations, in light of circumstances surrounding coronavirus. Management have made appropriate disclosures to highlight this in the accounts.

We have engaged with our own internal valuation experts and are proposing to include an Emphasis of Matter in the Audit report, to highlight this uncertainty.

Conclusion

We are content with the Council's valuation of non current assets.

Significant Judgement – Valuations (all types combined)

< lower | Impact of assumptions on the judgement | higher >

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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 valuation of the defined benefit obligation 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

Work performed continued

- Checked that any significant changes in membership data had been communicated to the actuary.

Results

- Management obtained an IAS 19 valuation for 2019/20. This resulted in a decrease in the pension scheme liability of £4.62 million from the prior year.
- All disclosures in the financial statements agreed to the actuarial report obtained from Barnett Waddingham. The assumptions on which the Council based its disclosure are consistent with those used by the actuary, which are in line with the expectations set out in PwC's consulting actuary report.
- We reviewed the competence of the actuary and concluded that we were able to rely on them.
- Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page.
- We have obtained assurance from the auditors of the Essex Pension fund over the controls in place for providing accurate membership data to the actuary and the testing of that data.

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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	■

Work Performed continued:

- The pension fund auditor has confirmed in their assurance letter that the valuation of property assets has been reported on the basis of 'material valuation uncertainty' due to Covid-19, and this is in line with guidance from Royal Institute of Chartered Surveyors (RICS). As reported in the IAS 19 report, the Council's share of property assets within the gross pension assets is £16.17m. Management has included additional disclosures about this matter.

We anticipate including an Emphasis of Matter paragraph within our audit opinion to refer to this.

Discussion and conclusion

Our audit work did not identify any issues.

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VALUATION OF PENSION LIABILITY

Our consideration of the actuarial assumptions used by the pension fund actuary is noted below. We have referred to the findings from an independent review of actuarial assumptions by PwC, which was commissioned centrally by Public Sector Audit Appointments Limited. The actuary has used the following assumptions at 31 March 2020 to value the future pension liability.

We have compared the assumptions used to an acceptable range and those used across local government actuaries.

	Actual used	Acceptable range	Comments
CPI increase	1.9%	1.85% -1.95%	Reasonable
Salary increase	2.9%	2.85-2.95%	Reasonable
Pension increase	1.9%	1.85% -1.95%	Reasonable
Discount rate	2.35%	2.35%	Reasonable
Mortality –LGPS:			
-Male future	23.2	22.8 –24.7 years	Reasonable
-Female future	25.2	25.2 –26.2 years	Reasonable
-Male pensioners	21.8	21.4 –23.3 years	Reasonable
-Female pensioners	23.7	23.7 –24.7 years	Reasonable
Commutation			
-Pre April 2008	50%	50%	Reasonable
-Post April 2008	50%	50%	Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate and will result in an estimate of the net pension liability which falls within a reasonable range.

Significant Judgement – pension liability

< lower | Impact of assumptions on the judgement | higher >

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E-FINANCIALS GENERAL LEDGER SYSTEM UPGRADE

There is a risk that balances are not transferred correctly resulting in a material misstatement to the financial statements

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's general ledger, eFinancials, has been upgraded during the year to move to a different version. The upgrade is being treated as a major upgrade by the Council and a full system implementation is being undertaken. Data migration will be undertaken and therefore there is a risk that balances are not transferred correctly resulting in a material misstatement to the financial statements.

Work performed

We reviewed the system implementation procedures undertaken by the Council and substantively tested the data migration to ensure that balances had been appropriately transferred between the old system and the new system.

Results

We concluded that the most efficient way to test the migration was to substantively test the transfer to the new system.

We agreed that each balance had been correctly transferred from the old system to the new system.

Discussion and conclusion

Our audit work did not identify any issues.

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OTHER MATTERS

The following are additional significant and other matters arising during the audit which we wish to bring to your attention.

Issue	Comment
From review of the Equity and loan agreements in place with Colchester Commercial Holdings Limited (CCHL) (a subsidiary of Colchester BC) we identified three areas that we considered required further understanding and audit consideration: 1. Advice received by the Council suggested that the interest rate on loans made to its subsidiaries, Colchester Amphora Homes Ltd (CAHL) and Colchester Amphora Energy Ltd (CAEL), should have been higher than that which is currently being charged. 2. Whether the Council's Equity investment of £1.6m in CCHL should have been impaired based on the performance of the subsidiaries. 3. Governance arrangements for the Council's subsidiaries.	1. The Council loaned £400k to CAHL and £900k to CAEL. Both loans are included in long term debtors in the Council's single entity financial statements. The interest rate charged for the loans is 5% plus base rate for CAHL and 4% plus base rate for CAEL. The Council obtained specialist advice in February 2020, from Link Asset Management (LAM), that stated the interest rate for CAHL specifically should be 7.44% - 10.94% for a one year loan and between 7.54% and 11.04% for a seven year loan, somewhat higher than the rates currently being charged. We therefore carried out some sensitivity analysis to identify the potential impact of the differing rates on the Council's 2019/20 Statement of Accounts. We concluded that the impact was not material to the accounts and, even if the interest rate were charged at the highest level indicated by the LAM advice, the impact on the Council's 2019/20 single entity accounts would be trivial (£57k) to the financial statements this year. However, the Council plans to substantially increase the level of loans it makes to its subsidiaries in the medium term, such that the differences in interest rates could become non-trivial in future years. Consequently, we have included a recommendation in this report for the Council to review the loan terms and interest rates in light of the advice received from its asset management advisors and the risks associated with a relatively new company. 2. In response to our queries on the approach the Council had taken to determining the fair value of its investment in CCHL, the Council provided a schedule detailing the net worth of the CCHL group, which implied that that the net worth of the companies covered the Council's investment by 104%. Further enquiries identified that there was insufficient supporting documentation to justify the capitalised salaries within the work in progress (WIP) figures included in the CAEL and CAHL accounts. A subsequent review of capitalised salaries completed by CCHL suggested that these had been overstated by £12k, thus reducing the net worth of CCHL by £12k. We completed a sensitivity analysis by considering this £12k inaccuracy (best case) scenario against one where all capitalised salaries (£389k for 18/19 and 19/20) are inaccurate (worst case). The best case would still result in the net worth of the subsidiaries being greater than the £1.6m invested, indicating that no impairment is necessary. In the worst case the net worth of the subsidiaries would be £111k lower than the £1.6m investment, indicating potential impairment being required. We have not carried out detailed testing of the capitalised salaries, as neither the salaries nor the £1.6m investment is material, but we have concluded there could be a misstatement of up to £111k in the fair value of the investment. The Council should ensure that adequate records are provided by the subsidiaries to support an evaluation by the Council of their net worth, including information on salary costs capitalised within WIP in the subsidiary accounts, and carry out a full impairment review of its investment in its subsidiaries every year to evidence that the fair value of investment is accurate. This will become more important if the Council increases its investment above a material level, as it plans to do. A recommendation has been included on page 33.

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OTHER MATTERS

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

Issue	Comment
Review of Equity and Loan agreements continued:	3. The Chief Executive of the Council is also a director of the CCHL subsidiary. For this role, the Chief Executive receives performance related pay, based on the financial results of the CCHL group. There are four other directors who are Members of the Council but receive no remuneration in respect of their roles within the group structure. The CCHL pay and reward policy states that "CCH operates a bonus scheme to ensure, alongside our competitive basic pay, staff are rewarded by achieving and exceeding targets. Therefore a further 10% of salary can be earned by staff annually". Legal advice received before the set up of the CCHL group stated "we understand that the Chief Executive of the Council may also act as Chief Executive of HoldCo and sit as a director on the HoldCo Board. In this scenario it is possible that conflicts may arise between the Chief Executive's duties as an officer of the Council and his duties as a director of HoldCo. The conflicts mechanism for the HoldCo would need to address this situation and could, for example, require the Chief Executive to refrain from participating in (and voting) on certain limited decisions of the HoldCo Board." The Chief Executive is able to declare an interest and not vote for a particular decision. However, the structure of the voting mechanism for the subsidiary states that should the number of votes for and against a proposal at a meeting of directors be equal, the chairman or other director chairing the meeting has the casting vote. Should the chairman be the Chief Executive he would have the casting vote. The fact that the Chief Executive is entitled to performance related pay based on the performance of the subsidiary compounds the legal advice warning of the potential for conflicts of interest to arise between the Chief Executive's duties as an officer of the Council, his duties as a director of CCHL and his personal interests. This creates a high risk of actual conflicts occurring or adverse publicity from perceived conflicts occurring and the Council should review the governance arrangements in place and put in mechanisms to mitigate this risk. Our work also identified that Minimum Revenue Provision (MRP) isn't currently being charged on the loans in place. Given that there is no repayment plan in place for CAEL (one was recently agreed for CAHL) the Council should consider charging MRP for CAEL in future.
Our review of the financial statements presented for audit identified a number of immaterial notes and disclosures.	As a result of the queries raised a number of these notes have now been removed. However there are still some notes included within the financial statements that we consider to be not material. We request that these are reviewed and removed next year as part of the accounts closure process.

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the directors 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 17 February 2020.

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 and significant matters in connection with related parties.

Laws and regulations

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

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

Group matters

Following review of the component auditors' reporting we can confirm:

- There were no limitations on the audit where information was restricted
- We did not identify any fraud at a component level.

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 is one unadjusted audit difference identified by our audit work which would increase the deficit on the provision of services for the year of £8,962k by £111k and would decrease net assets/liabilities of £386,235k by £111k.

The general fund balance would decrease by £111k if this audit difference was adjusted.

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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
Retained deficit on the provision of services for the year before adjustments	8,962				
Adjustment 1: Projected misstatement: Impairment of investment in subsidiary company CCHL					
DR Net cost of services		111			
CR Investment in Subsidiaries					(111)
Total unadjusted audit differences		111			(111)
Deficit on the provision of services for the year if above issues adjusted	9,073				

Impact on the General Fund balance	General Fund balance £'000
Balance before unadjusted audit differences	7,934
Impact on deficit on the provision of services above	111
Adjustments that would be reversed from the General Fund and through the Movement in Reserves Statement	(111)
Balances after the above adjustments	7,934

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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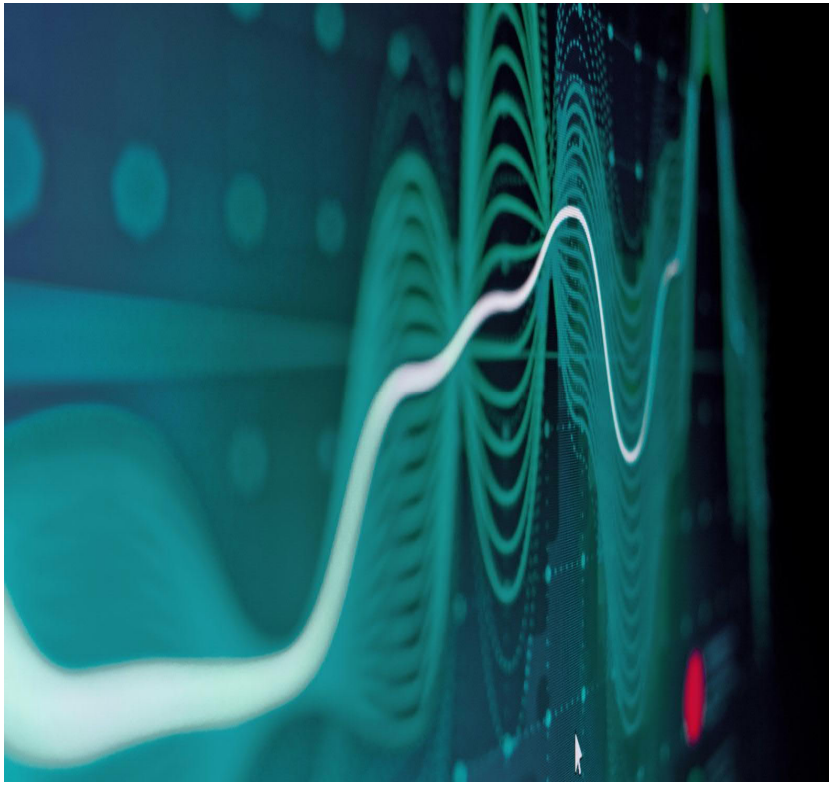

The differences identified by our audit that were adjusted by management had no effect on the provision of services or the net assets of the Council. They related only to the disclosure notes included with in the financial statements.

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

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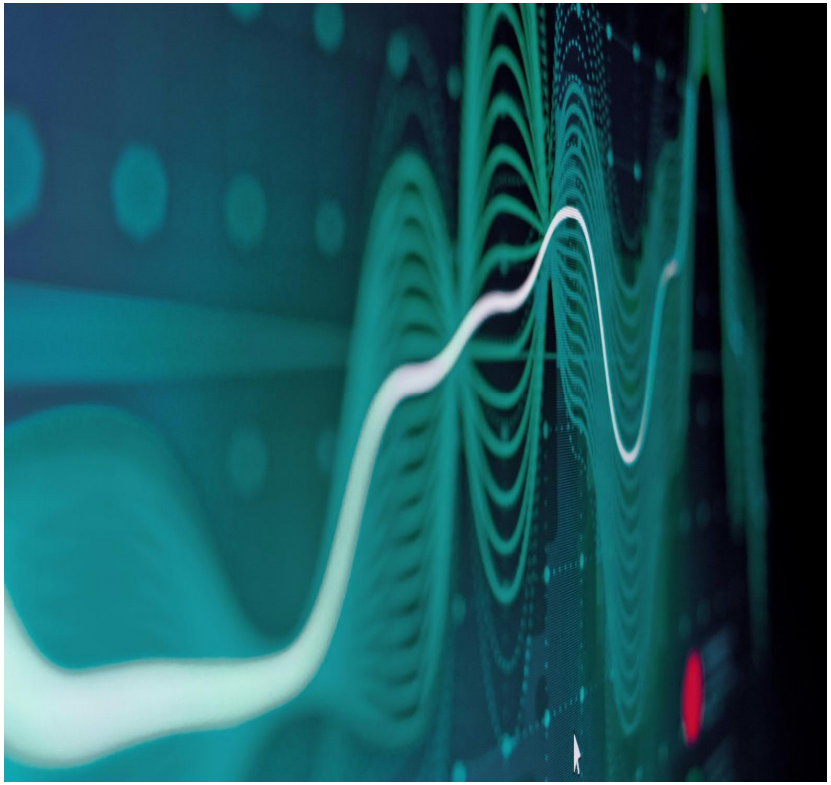
We are required to bring to your attention other financial reporting matters that the Governance and Audit Committee is required to consider.

The following adjusted disclosure matters were noted:

- Incorrect disclosure of the maturity analysis for financial liabilities.
- A £104k variance between note 13 and 34 on grants.
- Incorrect classification of short term creditors for HRA.
- Misclassification of short term finance lease creditors for HRA.
- Additions disclosures around Covid 19 in subsequent events.
- Some amendments to the senior officer remuneration note.
- Amendment to the banding of one exit package.
- Reclassifications within the cashflow statement.
- Reference to the material uncertainties in valuations highlighted by the valuer and the pension fund auditor.
- Other narrative amendments in the financial statements and removal of immaterial notes.



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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 Statement 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 Statement 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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WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council will submit their DCT upon completion of the audit. We are planning to submit the relevant section of the assurance statement to the National Audit Office after the completion of the audit.

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

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

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

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

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

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable Finances	Sustainable resource deployment	Significant	Our work is in progress and we will provide an update at the Committee.

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SUSTAINABLE FINANCES

The Council will need to deliver it savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.

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

Risk description

The update to the Medium Term Financial Forecast (MTFF) to 2023/24 has forecast further reductions in Government core grant funding. The Council has a track record of successfully achieving savings plans in previous years, largely from its commercialisation agenda. A balanced budget was set for 2019/20, however a cumulative budget gap of £2.5 million is forecast over the MTFF period.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Forecast, particularly around the likely levels of income from commercial activities
- Monitored the delivery of the budgeted savings in 2019/20 and the plans to deliver identified savings for 2020/21
- Sampled a number of savings schemes and plans
- Held interviews with key officers

Discussion and conclusion

Our work is in progress and we will provide an update at the Committee.

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OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Group Accounts	Advice received by Council suggested that the loan rate charged on the loans to the subsidiaries Colchester Amphora Homes Ltd and Colchester Amphora Energy Ltd should have been higher than that which is currently charged.	Review the loan terms and interest rates in light of the advice received from its asset management advisors and the risks associated with a relatively new company.	
Group Accounts	Our review of the impairment calculations identified that there was insufficient supporting documentation to justify the capitalised salary costs within the work in progress (WIP) figures in the subsidiary accounts.	Ensure that adequate records are provided by the subsidiaries to support an evaluation by the Council of their net worth, including information on salary costs capitalised within WIP in the subsidiary accounts.	
Group Accounts	A full impairment review was not undertaken by the Council.	Carry out a full impairment review of its investment in its subsidiaries every year to evidence that the fair value of investment is accurate.	
Group Accounts	The fact that the Chief Executive is entitled to performance related pay based on the performance of the subsidiary compounds the legal advice warning of the potential for conflicts of interest to arise between the Chief Executive's duties as an officer of the Council, his duties as a director of CCHL and his personal interests.	Review the governance arrangements in place and put in mechanisms to mitigate this risk.	
Group Accounts	Minimum Revenue Provision (MRP) isn't currently being charged on the loans in place.	The Council should prepare a paper to explain the accounting treatment for MRP.	

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Opinion on financial statements

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

The financial statements include disclosures about a material valuation uncertainty in respect of Property, Plant and Equipment, and 'Property' assets within the Local Government Pension Scheme Assets, due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

Conclusion on use of resources

We are proposing to issue an unmodified use of resources conclusion.

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.

Other information

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

Annual Governance Statement

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

Audit certificate

Include an explanation of anything preventing you signing the audit certificate.

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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 2020.

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 on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Governance and Audit Committee in advance in accordance with the Group'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 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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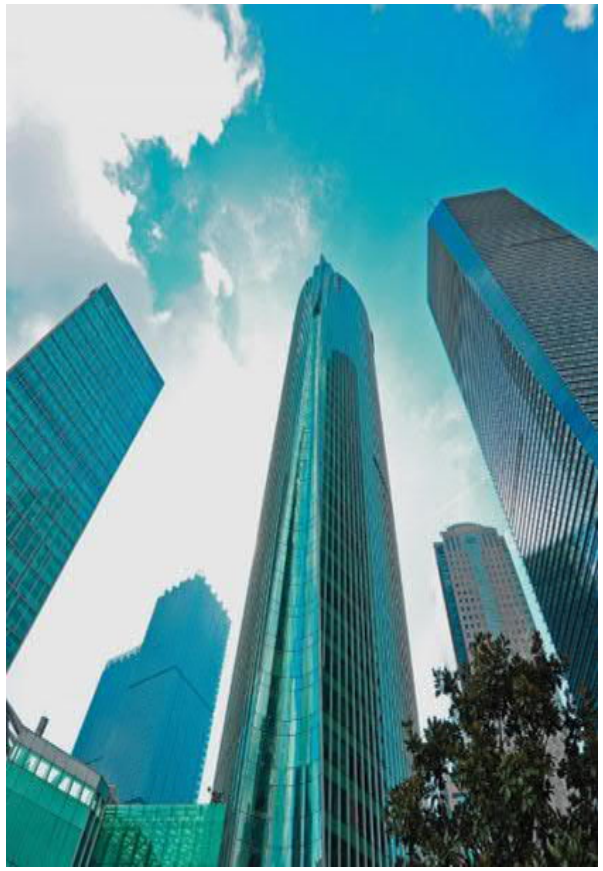
FEES

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	TBC[1]	48,188	48,188
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	13,640	13,640	13,640
• Pooling of housing capital receipts return	4,750	4,750	4,750
Total fees	66,578	66,578	66,578



[1] Amendments to the proposed fees

As reported in our audit plan the 2019/20 planned Code fee is the PSAA-published level. The Scale is based on the historical position from 2012/13 and so does not reflect any of the changes in audit scope and depth linked to current audit requirements for property, plant and equipment or pensions liability valuation work or group accounts work. We have commenced discussions with Officers on the total fee impact. We have also had to carry out additional work in respect of the loans and equity investment in Colchester Commercial Holdings Ltd. We will then seek approval of any proposed variation in fee from the Governance and Audit Committee and Public sector Audit Appointments Limited.

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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 Council financial statements. We report our opinion on the financial statements to the directors of the Council.

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

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

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Governance and Audit 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.
7	Any issues with the quality of component auditors work.	No exceptions to note.
8	Any fraud or suspected fraud at group or component level.	No exceptions to note.

COMMUNICATION WITH YOU

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Those Charged with Governance (TCWG)

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

In communicating with 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 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 2020	Governance and Audit Committee
Audit completion report	24 November 2020	Governance and Audit Committee
Annual Audit Letter	19 January 2021	Governance and Audit Committee

OUTSTANDING MATTERS

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

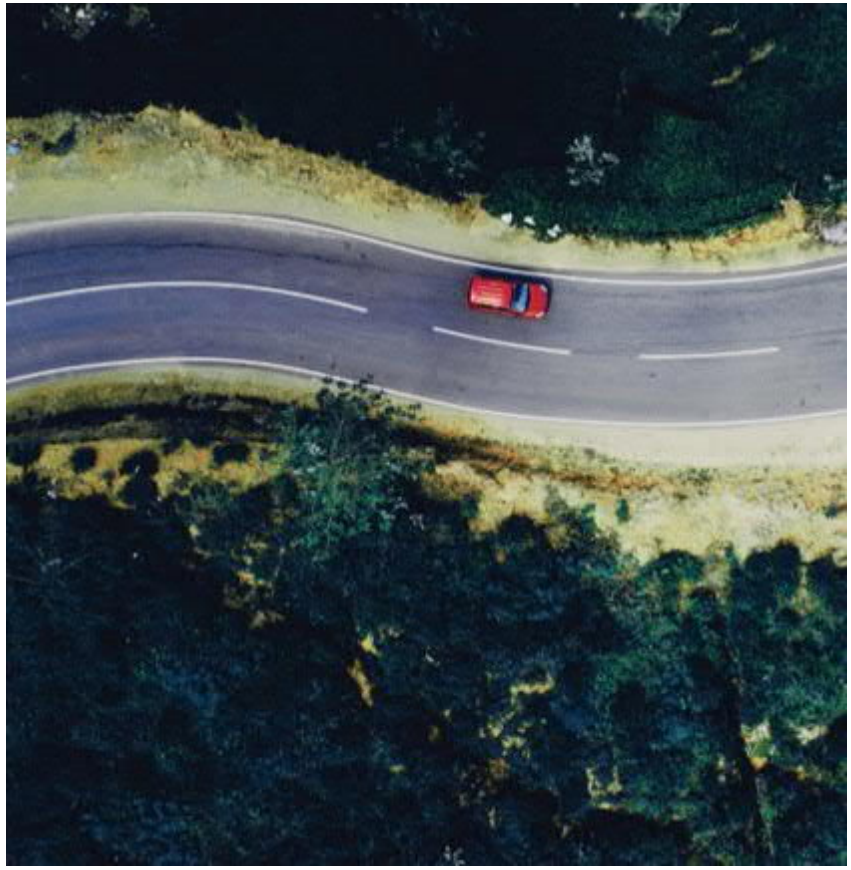
The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Governance and Audit Committee meeting at which this report is considered:

- Final review and clearance of review points by senior team, in particular with respect to PPE valuations;
- Completion of Use of resources work
- Completion procedures:

  –Checks on approved final Statement of Accounts

  –Subsequent events review up to the date of signing

  –Management letter of representation, as attached in the appendices to be approved and signed.



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LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

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

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

LATEST REGULATORY DEVELOPMENTS 2

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Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC – requested by the Secretary of State	• Highlighted deficiencies in FRC and its operating effectiveness • New regulator to replace FRC 'Audit, Reporting and Governance Authority' • Reconsideration of which entities are classed as 'public interest' A number of changes require legislation changes but the FRC is working on implementation where possible.
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 – Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	The proposals being classed as: • FRC and BEIS will implement as soon as possible • Can be implemented once considered, in advance of legislation • Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	Report 18 April 2019 – suggestions include • Increased accountability of Governance and Audit Committees including a focus on how they select auditors and their consideration of audit quality • Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews • An operational split between the audit and non audit practices of the big 4 • A 5 year review of progress by the new regulator Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

LATEST REGULATORY DEVELOPMENTS 3

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Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' – 24 April	Consideration of 2 reports – CMA and Kingman – to ensure they will lead to coherent framework	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular: • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGA – deal with failures more quickly and more stringently Published June 2019.

LATEST REGULATORY DEVELOPMENTS 4

Brydon

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

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

Key considerations for Audit Firms

- A new definition of audit: " The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements."
- Recognition of other stakeholders alongside the company's shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for 'professional suspicion' alongside 'professional scepticism';
- Replace 'true and fair' with 'present fairly, in all material respects';
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors' statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Governance and Audit Committees are as follows

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

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LATEST REGULATORY DEVELOPMENTS 5

Redmond

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

The Report includes a number of key recommendations, including:

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

FRC ETHICAL STANDARD

Issued in December 2019

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

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an SME listed entity - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

FRC PRACTICE AID FOR GOVERNANCE AND AUDIT COMMITTEES

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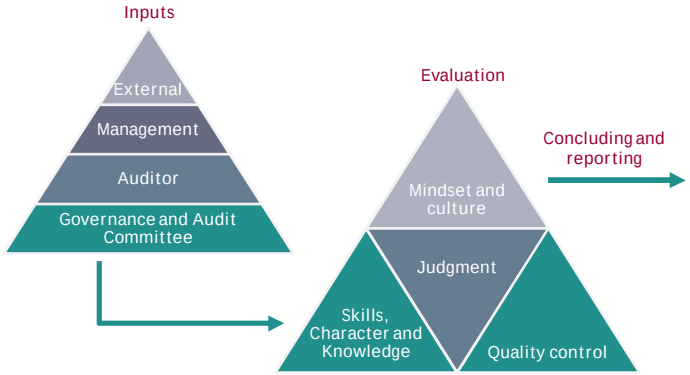
The FRC issued an updated practice aid for Governance and Audit Committees in December 2019 and a full copy can be found on the FRC website. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance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

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

It gives guidance for Governance and Audit Committees in the following areas:

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



- Transparency - reporting to the Board on how the Governance and Audit Committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

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

Letter of representation

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[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Colchester Borough Council for the year ended 31 March 2020

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

The Head of Finance and S151 Officer has fulfilled his 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 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

Going concern

We have made an assessment of the 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. Furthermore, we confirm that the disclosures included in note xx to the financial statements are sufficient.

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

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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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.

To the best of our knowledge we are not aware of any 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 35 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.

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

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

- CPI increase 1.9%
- Salary increase 2.9%
- Pension increase 1.9%
- Discount rate 2.35%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities and has taken into consideration the impact of the McCloud judgement in its calculations.

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b) Valuation of housing stock, other land and buildings and investment Properties

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

We confirm that the valuations, including desktop valuations, applied 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 are not materially misstated at year end. In particular, we are satisfied that:

•Council dwellings are based on existing use prices discounted for social housing using the appropriate social housing discount factor;

•Specialised operational land and buildings (including heritage assets) where there is no market based evidence of current value are based on rebuild index prices;

•Non-specialised operational land and buildings are based on existing use prices;

•Investment properties are valued at fair value, based on highest and best use.

c) Allowances for non-collection of receivables

We are satisfied that the impairment allowances for council tax receivables, business rates receivables and housing benefit overpayments are reasonable, based on write-off rates or collection rate data.

d) Non-domestic rates appeals provision

We are satisfied that the calculation for the provision for non-domestic rates appeals is reasonable based the calculation provided by management experts

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

Paul Cook	Cllr C Pearson
Head of Finance and S151 Officer	Chair of the Governance and Audit Committee
[date]	[date]

AUDIT QUALITY

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Audit quality

BDO is totally committed to audit quality

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

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

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

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

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

FOR MORE INFORMATION:

Lisa Clampin
t: 01473 320716
m: 07791 397160
e: lisa.clampin@bdo.co.uk

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

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