



Report to the Audit and Risk Management Committee

LONDON BOROUGH OF ENFIELD PENSION FUND

Audit Planning Report: year ending 31 March 2020

IDEAS | PEOPLE | TRUST



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WELCOME

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We have pleasure in presenting our Audit Planning Report to the Audit and Risk Management Committee. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2020 in respect of our audit of the financial statements; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

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

We look forward to discussing this plan with you at the Audit and Risk Management Committee meeting on 16 January 2020 and to receiving your input on the scope and approach.

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

David Eagles, Partner
for and on behalf of **BDO LLP**

13 January 2020



David Eagles

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Senior Audit Manager

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Gerald Chanduru

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

SCOPE AND MATERIALITY

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This summary provides an overview of the key audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the planned audit strategy for the Pension Fund for the year ending 31 March 2020.

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

Audit scope

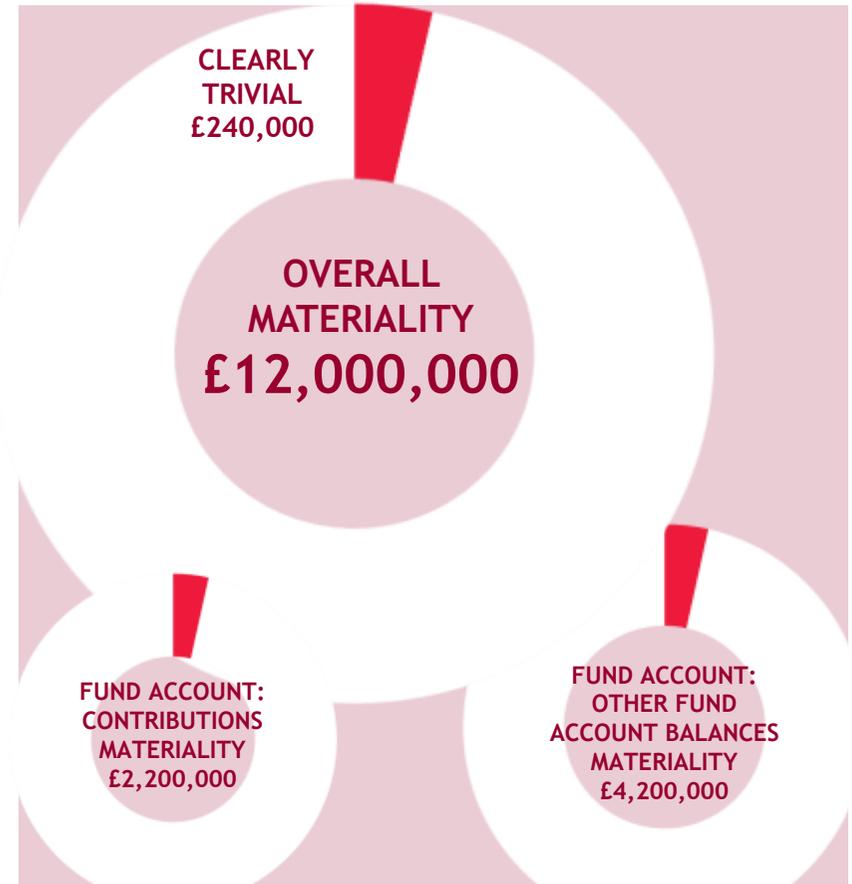
The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes auditing the financial statements and, where appropriate, exercising the auditor's wider reporting powers and duties.

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

Materiality

Planning materiality for the Pension Fund financial statements will be set at 1% of net assets (prior year (1%). Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the Fund Account at 5% of contributions receivable.

Although materiality is the judgement of the engagement lead, the Audit and Risk Management Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



AUDIT STRATEGY

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

We have discussed the changes to the Pension Fund, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Pension Fund's activities and to determine which risks impact on the numbers and disclosures in the financial statements.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Fair value of investments (infrastructure & private equity)	Significant	Yes	Substantive	High
Pension liability assumptions	Significant	No	Substantive	High
Valuation of investment assets (other)	Normal	No	Substantive	Medium
Related party transactions disclosure	Normal	No	Substantive	Medium
Membership disclosure	Normal	No	Substantive	Medium



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Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

Fees

	2019/20	2018/19
	Proposed	Actual
Code audit fee	£18,857*	£18,857
Total audit fees	£18,857	£18,857
Total non-audit services fees	-	-
Total fees	£18,857	£18,857

* This is the current Scale fee and we will reassess this level alongside discussions with officers about the main Council audit.

Amendments to the proposed fees

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

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

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

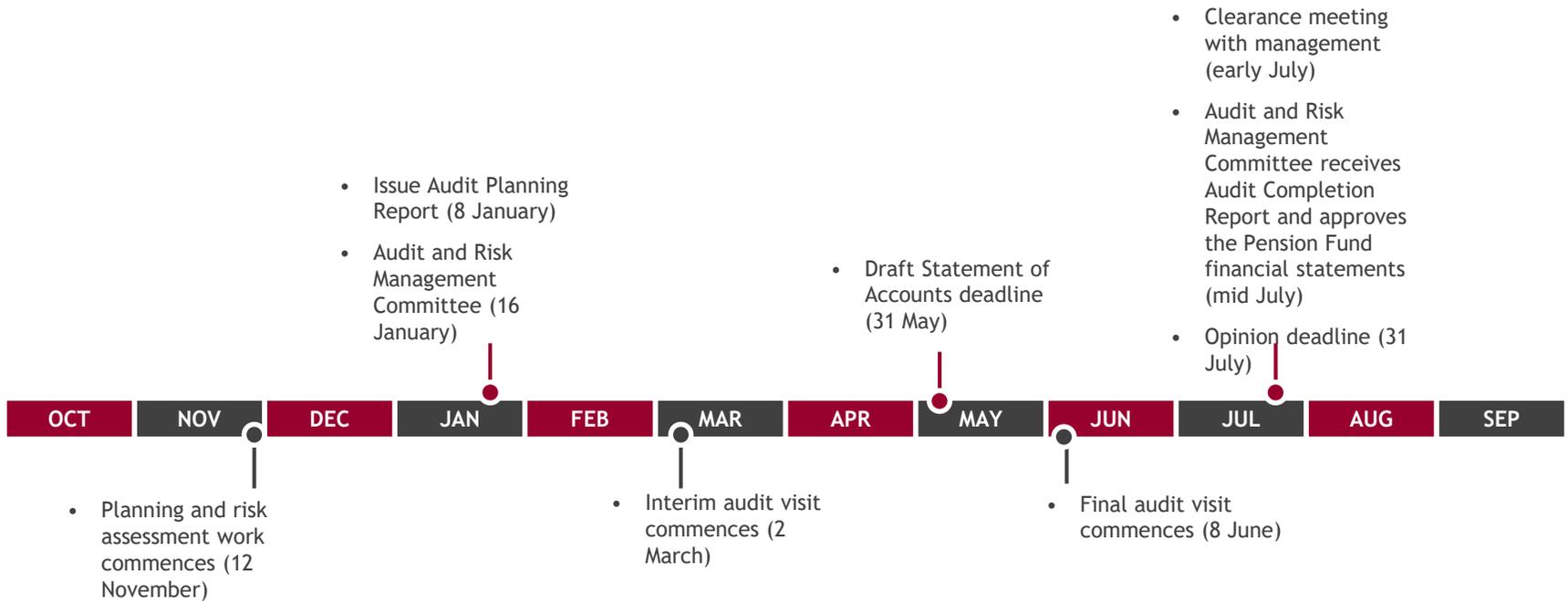
We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on Pension Fund financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information published together with the financial statements to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Annual Report	We will review the Pension Fund Annual Report and report on the consistency of the Pension Fund financial statements within the Annual Report with the Pension Fund financial statements in the Statement of Accounts.
Report to the Audit and Risk Management Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit and Risk Management Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

AUDIT TIMELINE

An overview of the key dates

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BDO TEAM

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

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

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



Lucy Trevett
Senior Audit Manager
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I will lead on the audit of the Pension Fund financial statements. I work closely with David to develop and execute the audit strategy. I will be a key point of contact on a day to day basis and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to management and the Audit and Risk Management Committee are highlighted on a timely basis.



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I will be responsible for the day to day supervision of the audit team, and will be responsible for the delivery of the key audit work.

OVERVIEW

Audit risks

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

Key: **Significant** / **Normal**

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Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.
2. Fair value of investments (infrastructure & private equity)			The valuation of infrastructure and private equity holdings is a significant risk as it involves a high degree of estimation uncertainty.
3. Pension liability assumptions			The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.
4. Valuation of investment assets (other)			The valuation of other funds is a normal risk as the value is provided by individual fund managers and reviewed by the Custodian and are quoted on an active market.
5. Related party transactions disclosure			We need to consider if the disclosures are complete and accurate and in line with the requirements of the accounting standard.
6. Membership disclosure			Membership information including the number of current contributors, deferred beneficiaries and pensioners by employers may not be accurate and up to date.

MANAGEMENT OVERRIDE OF CONTROLS

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

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

Risk detail

- 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.

Planned audit approach

Our audit procedures will include the following:

- Review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction and we will test a sample of these journals;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.



FAIR VALUE OF INVESTMENTS (INFRASTRUCTURE & PRIVATE EQUITY)

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The valuation of infrastructure and private equity holdings is a significant risk as it involves a high degree of estimation uncertainty.

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

Risk detail

The investment portfolio includes unquoted infrastructure and private equity holdings valued by the fund manager. The valuation of private equity assets may be subject to a significant level of assumption and estimation and valuations may not be based on observable market data.

In some cases, the valuations are provided at dates that are not coterminous with the Pension Fund’s year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations.

As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

Planned audit approach

Our audit procedures will include the following:

- Obtaining direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund;
- Where the financial statement date supporting the valuation is not coterminous with the pension fund’s year end, confirming that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensuring investments have been correctly valued in accordance with the relevant accounting policies.

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	—
Fraud risk	—
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	—
Controls testing approach	—
Substantive testing approach	■
Risk highlighted by management	■

Risk detail

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation uses inappropriate assumptions to value the liability.

Planned audit approach

Our audit procedures will include the following:

- Reviewing the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data; and
- Agreeing the disclosure to the information provided by the actuary.

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There is a risk that investments are not appropriately valued and correctly recorded in the financial statements.

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

Risk detail

The fair value of other funds (principally unit trusts and pooled investments held through unitised insurance policies) is provided by individual fund managers and reviewed by the Custodian, and reported on a quarterly basis. These funds are quoted on active markets.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Planned audit approach

Our audit procedures will include the following:

- Obtain direct confirmation of investment valuations from the fund managers and agreed valuations, where available, to readily available observable data (such as Bloomberg).
- Ensure that investments have been correctly valued in accordance with the relevant accounting policies.
- Obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

RELATED PARTY TRANSACTION DISCLOSURES

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There is a risk that related party disclosures are not complete and accurate.

Significant risk
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Significant Management estimates & judgements
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Risk highlighted by management

Risk detail

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

Planned audit approach

Our audit procedures will include the following:

- Review management processes and controls to identify and disclose related party transactions;
- Review relevant information concerning any such identified transactions;
- Discuss with management and reviewed members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertake Companies House searches for potential undisclosed interests.

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There is a risk that the membership database may not be accurate and up to date to support this disclosure.

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Significant Management estimates & judgements
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Risk highlighted by management

Risk detail

Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed. There is a risk that the membership database may not be accurate and up to date to support this disclosure.

Planned audit approach

Our audit procedures will include the following:

- Obtain membership records and reviewed the controls over the maintenance of these records; and
- Undertake sample testing of movements of members to transactions recorded in the fund account.

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Fraud

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

We have not been made aware of any actual, alleged or suspected incidences of fraud. We request confirmation from the Audit and Risk Management Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management believe that there is low risk of material misstatement arising from fraud and that controls in operation would prevent or detect material fraud.

Internal audit

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

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

Laws and regulations

We will consider compliance with laws and regulations, including Employment Taxes and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities.

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Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

Significant accounting estimates and judgements

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

Financial statement disclosures

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

Any other matters

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

GOING CONCERN

Directors are required to make an assessment of the Pension Fund's ability to continue as a going concern.

Management's responsibilities

It is management's responsibility to make an assessment of the Pension Fund's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the directors' approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

Audit responsibilities

Our responsibilities in respect of going concern are:

- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and
- (b) To report in accordance with ISA (UK) 570.

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Pension Fund's financial performance including forecasting and budgeting processes and management's risk assessment process. We will evaluate:

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

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IT GENERAL CONTROLS

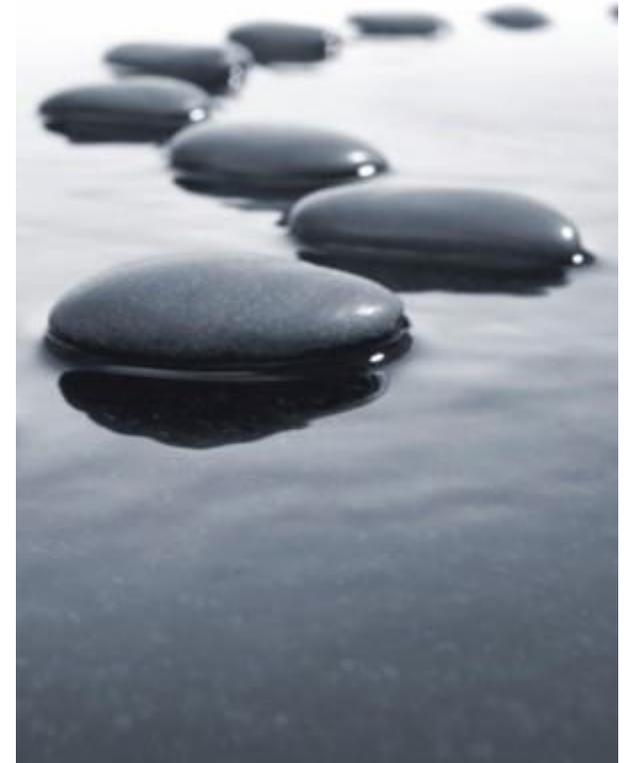
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IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting.



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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 auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement.

This document considers such matters in the context of our audit for the year ending 31 March 2020.

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

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

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

Non-audit services

We do not carry out any non-audit services in respect of the Pension Fund.

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

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Financial reporting

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

The form and content of the Pension Fund's financial statements should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Section 151 Officer is responsible for preparing and publishing Pension Fund financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

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



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Our responsibilities and reporting - financial reporting

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

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

In addition, we review the Pension Fund Annual Report and report on the consistency of the Pension Fund financial statements within the Annual Report with the Pension Fund financial statements in the Statement of Accounts.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Pension Fund and the Audit and Risk Management 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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Those charged with governance

References in this report to ‘those charged with governance’ are to the Pension Fund as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

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

Audit Planning Report

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

Internal Controls

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

Audit Completion Report

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

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

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

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

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
David Eagles Engagement lead	5	5 years
Lucy Trevett Senior Manager	1	7 years

Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	1	5 years

MATERIALITY: DEFINITION AND APPLICATION

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Concept and definition

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

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

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

- Narrative disclosure e.g. accounting policies, going concern; and
- Instances when greater precision is required (e.g. Remuneration and Staff Report and related party transactions).

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

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the entity, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests;
- Calculate sample sizes; and
- Assist in evaluating the effect of known and likely misstatements on the financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the [Audit Committee] confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

AUDIT QUALITY

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BDO’s audit quality cornerstones underpin the firm’s definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing 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 regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of 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 entities.

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



AQR RESULTS 2018/19

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Overview

The FRC released their Audit Quality Review (AQR) results for the 7 largest accountancy firms in July 2019 for the review period 2018/19. A copy of all of the reports can be found on the [FRC Website](#). We are very proud of our results in this review period where, for the second year running, 7 of the 8 files reviewed were assessed as either good or requiring only limited improvements.

Firm's results

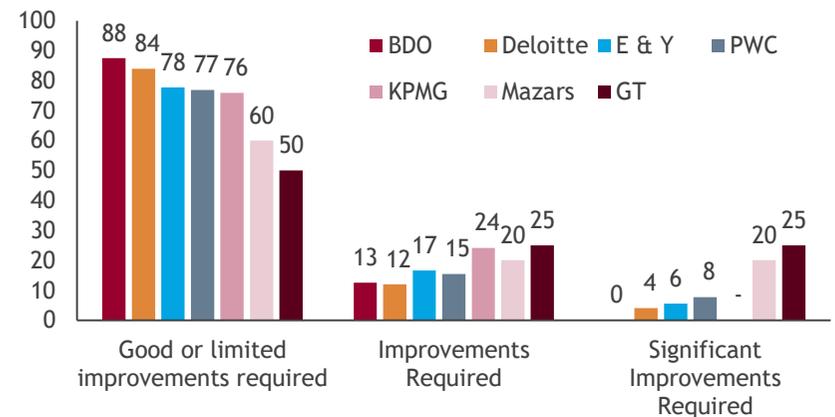
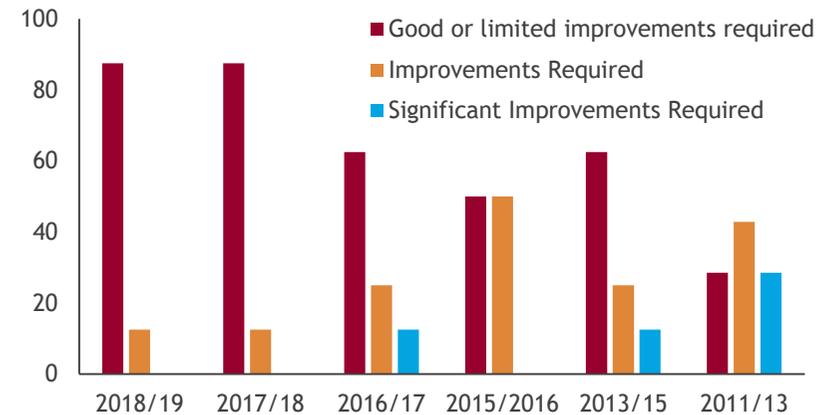
The graphs demonstrates our performance in relation to the other 6 largest firms and our continuous improvements and maintenance of that improvement over the last 6 review periods .

We include details of our model 'The Cycle of Continuous Improvement'. We acknowledge that the firm has performed well over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively with issues as they arise. This also highlights how our program of root cause analysis plays an important role in high audit quality.

We would encourage you to read our report which includes:

- Details of the root cause analysis we have been undertaking to address issues raised;
- The actions we have/are undertaking to address the issues raised by the AQR; and
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

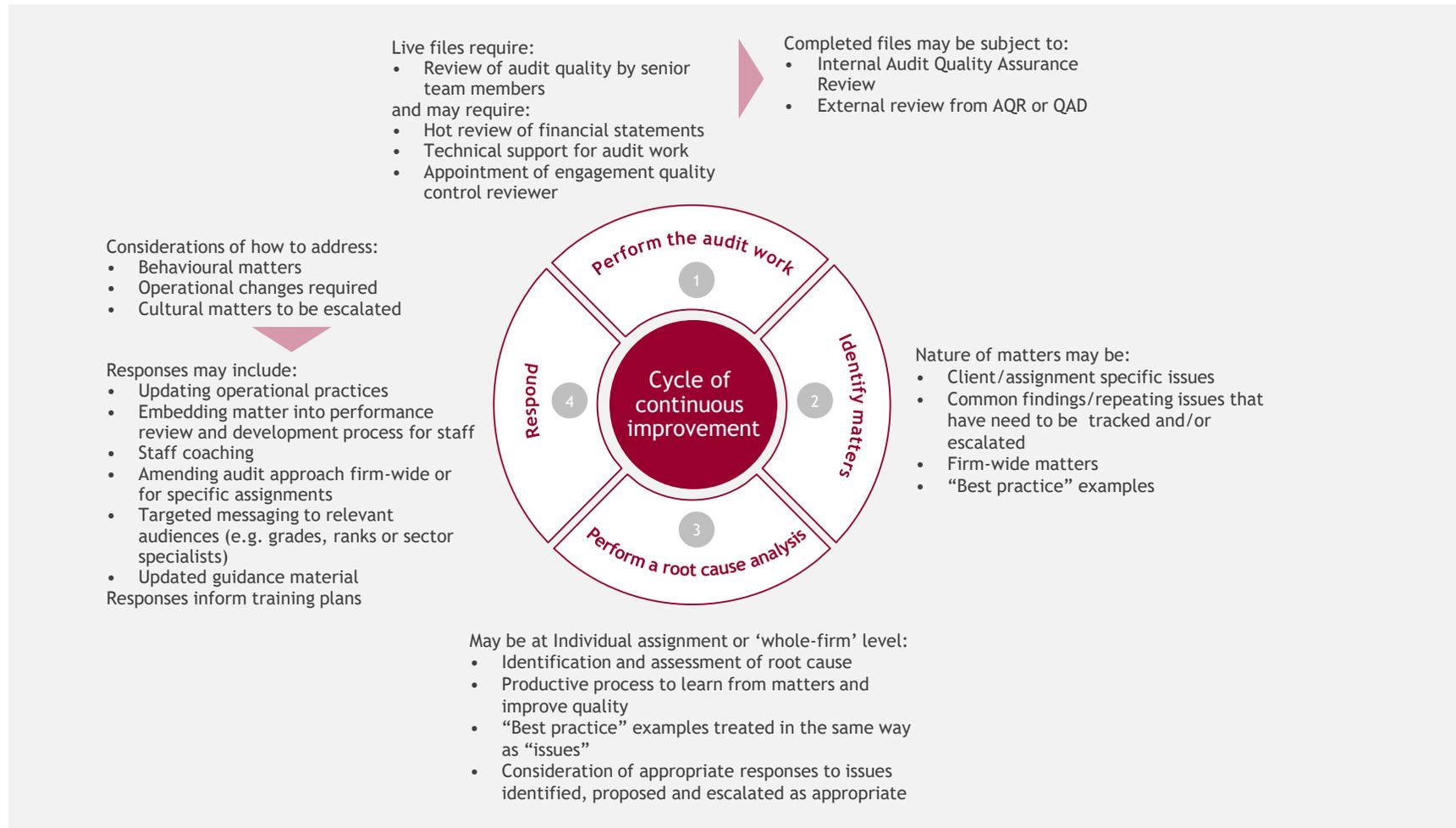
More details are included in our Transparency Report which are available on our www.bdo.co.uk.



BDO CYCLE OF CONTINUOUS IMPROVEMENT

BDO performance

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

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