

WLGA EXTERNAL AUDIT PLAN AND INTERIM AUDIT REPORT**Purpose**

1. The purpose of this report is to update Members on the external auditors' (Bevan and Buckland) proposed audit plan for the audit of the Welsh Local Government Association for the year ending 31 March 2021.

Background

2. The objective of the audit is to obtain sufficient, reliable and relevant evidence to enable the auditors to give an opinion on the truth and fairness of the financial statements of the Welsh Local Government Association. A copy of the report "Audit Planning and Interim Report" is attached at Annex 1.

Audit Planning Process

3. In order to assist the WLGA and the Audit Committee, they have focussed on changes affecting the Association and have assessed the WLGA's risk register and incorporated into their planning any risks which they feel will have an impact on the audit approach and ability to give a true and fair opinion.
4. As part of the planning process the auditors have met with the the Director of Resources and members of the finance team to discuss a number of key issues in advance of the audit. The auditors have identified those issues which they regard to be high risk for the Association for which they will carry out additional work (see areas of risk and focus page 5 Annex 1).
5. The audit work performed can be broadly split into 3 areas of work:
 - Reviewing internal controls;
 - Analytical review, such as reasonableness testing; and
 - Detailed substantive testing of balances, such as obtaining third party confirmation of balances or agreeing transactions to supporting documentation.
6. The auditors will review the overall control and IT environment and assess how the board gain comfort that the Association's risks are effectively controlled, and that the financial information reflects what is really happening.
7. The Interim Audit has already taken place and findings are also set out in Annex 1. The Final Audit will commence on the 28 June.

Recommendations

- 8. It is recommended that Members discuss and agree the Auditors' Audit Planning and Interim Report**
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AUDIT COMMITTEE FUTURE WORK PROGRAMME

	April 2020	October 2020
Appointment of External Auditors (Annual)		To appoint External Auditors for 2019-20 Accounts
External Audit Plan (Annual)	To receive the External Audit Plan for the 2019-20 Accounts closure.	
WLGA Audited Accounts and External Auditor's Findings (Annual)		To receive and scrutinise the draft audited WLGA financial statements
Appointment of Internal Auditors (on three yearly cycle)		To appoint Internal Auditors
Internal Audit Plan (Annual)	To receive a proposed work programme for the new financial year	
Internal Auditors Findings and Progress (as required)	To receive a progress update on the WLGA's management response to the Internal Audit Healthcheck	
WLGA Annual Reporting (Annually)	To receive a draft Annual Report of the WLGA's activities	
WLGA Risk Management (six monthly)	To receive an updated Strategic Risk Register	To receive an updated Strategic Risk Register
WLGA Annual Fraud Report (Annually)	To receive the annual fraud report	
Review of Internal Controls (as required)		To receive the report of the review of internal controls

	April 2020	October 2020
WLGA Treasury Management (Annual)	To receive the Treasury Management Strategy for the new financial year	To receive the Treasury Management Report for the previous financial year
WLGA Policy Review (as required)		
Data Protection	To receive an update on the WLGA's data protection policy and performance	
WLGA Members' Allowances Scheme (Annually)	To receive the proposed WLGA Members' Allowances Scheme for 2020-21	
Annual Report of the Audit Committee (Annually)	To consider and agree the annual report of the Audit Committee	
Work Programme of the Audit Committee (six monthly)	To review and/or update work programme	To review and/or update work programme

Audit Planning Report for the year ended 31st March 2021

Welsh Local Government Association



Table of Contents

Executive summary	1
Audit Approach	2
Reporting and communication	3
Summary of audit risk and focus	4
Areas of significant audit risk.....	5
Additional areas of audit focus	7
Risks on your risk register likely to impact the audit	8
Materiality	9
Audit timetable	10
Accounting Estimates.....	11
Appendix 1 – Engagement team.....	12
Appendix 2 – Auditor independence and objectivity.....	13
Appendix 3 - Risks of fraud in the business	14
Appendix 4 – Going Concern.....	15
Appendix 5 - High Quality Audit.....	18

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 giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. The terms and conditions, under which our audit will be performed, including our roles and responsibilities and auditors, are set out in our letters of engagement. These have been issued separately.

However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

We are pleased to present our proposed audit plan for the Audit of Welsh Local Government Association (WLGA) for the year ending 31 March 2021. The objective of our work is to obtain sufficient reliable and relevant evidence to enable us to give an opinion on the truth and fairness of the financial statements of the association.

In order to assist the board we have focused on changes affecting you and their impact on our audit. We have assessed your risk register and incorporated into our planning any risks which we feel will have an impact on our audit approach and ability to give a true and fair opinion. If you have any queries or feedback relating to our planned approach or on our performance throughout the audit process we would welcome the opportunity to discuss these with you.

Areas of significant audit risk	<p>We have identified the following areas of significant audit risk:</p> <ul style="list-style-type: none"> Revenue recognition (including inappropriate recognition of receipts received in an agency capacity) Management override of controls Insufficient recognition of dilapidation provision. <p>We will report on our findings in our audit findings report.</p>
Additional areas of audit focus	<p>We have identified the following areas of additional audit focus:</p> <ul style="list-style-type: none"> The impact of the Covid-19 pandemic and the resulting restrictions on Going Concern Recognition and disclosure of the pension liability and associated movements during the year Recognition & recoverability of grant debtors
Materiality	Planning materiality has been set at £360,000, using a benchmark of eg 2% of income. A level of £18,000 has been set as our clearly trivial level.
Audit Timings	Our interim audit will take place the week commencing 22 March 2021 and final audit the week commencing 28 June 2021.
Independence	We are not aware of any relationships between Bevan Buckland LLP and the association, that in our professional judgement, may reasonably be thought to bear on our integrity, independence and objectivity at the date of the audit plan.

Audit Approach

In the delivery of our audit service we build on the significant knowledge and experience we have gained through our experience in the sector and through auditing the association's financial statements in previous years. We place particular emphasis on:

- Discussing and agreeing our approach with you in advance.
- Meetings with management to discuss potential issues at an early stage.
- Regularly communicating our audit progress and discussing issues that arise.
- Attendance at the board meetings to report findings from our audit in a timely and focused manner.
- Adding value through observations and recommendations with respect to processes, systems, controls, best practice and relevant industry developments (from a financial, operational and regulatory perspective).

Overview

The audit process is designed to obtain sufficient reliable and relevant evidence to enable us to give the relevant opinion and statement required from the audit.

The foundation of our audit approach is our assessment of the risks of material misstatement. We then identify and assess whether controls are in place which mitigate the risks we have identified.

The audit work performed can be broadly split into three types of work:

- Reviewing internal controls.
- Analytical review, such as reasonableness testing.
- Detailed substantive testing of balances, such as obtaining third party confirmations of balances or agreeing transactions to supporting documentation.

We plan to take a largely substantive approach to the audit, some substantive procedures will be carried out for each material account balance.

We will review the overall control and IT environment and assess how the board gain comfort that the association's risks are effectively controlled and that the financial information reflects what is really happening. We will seek to understand how the risk of management override of controls has been addressed, including the risk of fraud.

Audit planning process

As part of the planning process we have met with Jon Rae, Gaynor Williams & Martin Edwards to discuss a number of the key issues in advance of our fieldwork.

We have identified those issues which we feel are high risk for which we will carry out additional work (see areas of audit risk and focus). For this year's audit, and ongoing, any risks within your risk register which we believe impacts our audit. This enables us to satisfy the requirements of ISA 330 'The auditor's procedures in response to assessed risks', including tests of key financial controls.

Our 2021 Audit Approach

As a result of the current crisis with the coronavirus and following Government recommendations, both Bevan Buckland LLP and WLGA staff are working remotely.

Based on the current situation continuing, our approach this year is to produce a more detailed deliverables list for the information we require. This information is then uplifted by your team into a 'share point' where we can access.

Our audit team will also hold ongoing 'meetings' with your staff via Microsoft Teams. Our aim is to deliver the audit in the timescale planned. All our team continues to work their standard working hours with flexibility built in to accommodate remote working.

However, we will continue to monitor the recommendations closer to the audit date and will be flexible to enable an onsite audit if able at the time of the final audit.

Reporting and communication

Our reporting obligations

Financial statements

We will report to you our opinion as to whether the association's financial statements give a true and fair view and contain the information required by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We will also read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities will not extend to any other information in the annual report.

Specific communications

Our audit will be carried out in accordance with Clarity International Standards on Auditing (ISAs) (UK and Ireland). Under ISA (UK & I) 260 (revised) "Communication with those charged with governance" we are required to make a number of specific communications to those charged with governance. These matters and how they will be communicated to you are summarised in the table.

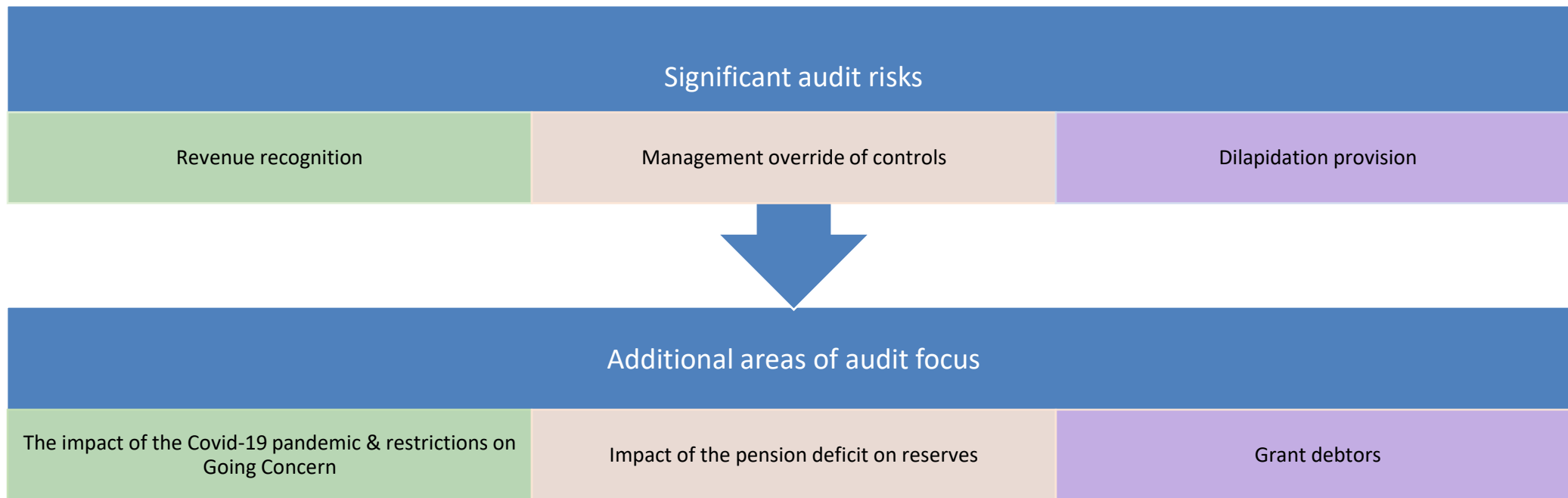
Letter of representation

You will provide a letter of representation in respect of our audit of the financial statements at the completion of the audit. The letter of representation will need to be dated the same date as we sign our audit opinion. This will be discussed with you at the completion stage of the audit.

Clarity ISA (UK&I) 260 (revised)	Audit plan	Audit Findings Report
Independence and objectivity confirmation	✓	✓
Nature, scope and timing of work together with expected reports	✓	
Expected modifications to the auditors' report		✓
Unadjusted misstatements		✓
Material weaknesses in the accounting and internal control systems identified during the audit		✓
Our views on the qualitative aspects of your accounting practices, policies, estimates and financial reporting.		✓
Difficulties encountered during the audit		✓
Significant matters discussed with management		✓
Matters specifically required by other ISAs to be communicated to those charged with governance		✓
Final draft of representation letter		✓
Any other audit matters of governance interest		✓

Summary of audit risk and focus

The following significant audit risks and additional areas of audit focus have been identified:



In identifying risks, we have considered the nature of the risk, magnitude of potential misstatement and likelihood. Significant risks are those that have been deemed that have a higher risk of misstatement. In the subsequent two sections we have note in detail the risk and planned responses.

Areas of significant audit risk

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks are categorised as follows:

Overall Risk factor	Explanation
High	Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year
Medium	Although not considered significant, the nature of the balance/area requires specific consideration.
Low	We perform standard audit procedures to address normal risks in all other material financial statement line items.

We are committed to providing you with the highest level of professional service and, as a minimum, are planning to meet your needs and expectations. From meetings previously undertaken with Jon, Gaynor & Martin, together with our knowledge of the association and developments in the sector, we have identified the following significant risks.

Risk	Likelihood	Financial impact	Overall Risk category	Audit risk and response
<p>Revenue recognition</p> <p><i>There is a presumption that revenue recognition is a significant risk on every audit engagement (ISA (UK) 240)</i></p>	High	High	High	<p>Audit risk</p> <p>An area of focus for all audits is revenue recognition. FRS 102 include some specific criteria that need to be assessed in determining the period in which income is recognised.</p> <p>There is an additional risk in the year under review that receipts received may be classed as income when they are agency transactions</p> <p>Planned audit response</p> <p>We will examine and test the process through which management has identified and quantified any income that needs to be accrued at year-end.</p> <p>We will also perform substantive testing on a sample of transactions, including review of grant letters to determine the nature of receipts.</p>

Risk	Likelihood	Financial impact	Overall Risk category	Audit risk and response
<p>Management Override of Controls</p> <p>Management override of controls should be considered a risk on every engagement (ISA (UK) 240)</p>	High	High	High	<p>Audit risk</p> <p>Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Planned audit response</p> <p>Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>We will also review internal audit reports to discover the areas covered, any issues identified and improvements implemented</p>
Provision for dilapidations of current leased property	Medium	High	High	<p>Audit risk</p> <p>The risk is that the provision for dilapidations may be materially understated.</p> <p>Planned audit response</p> <p>We will review: the dilapidations clause within the lease, the client provision calculation/balance and any valuations completed by a third party to ascertain whether the provision is complete.</p>

Additional areas of audit focus

Although not considered to be significant risks, the following areas/risks will be given specific consideration due to the nature of the area and the risk of material misstatement to the financial statements.

Risk/area of focus	Likelihood	Financial impact	Overall Risk category	Audit risk and response
The impact of the Covid-19 pandemic & restrictions on Going Concern	Low	High	Medium	<p>Audit risk That the pandemic has a negative impact on the ability of WLGA to continue operations. The likelihood is considered low, as so far demand for WLGA's services has increased.</p> <p>Planned audit response To review available information up to the date of signing the audit report to allow us to conclude whether there is likely to be a future negative impact.</p>
Impact of the pension deficit on reserves	Medium	Medium	Medium	<p>Audit risk That the pension deficit increases and has a material negative impact on reserves.</p> <p>Planned audit response Bevan Buckland to review all available information and consider whether any possible increase in the deficit has a material negative impact on future operations.</p>
Income cut off/grant debtors	Medium	Medium	Medium	<p>Audit risk That income & the related grant debtors are not recognized in the correct period.</p> <p>Planned audit response Bevan Buckland to review a sample of grant letters to ensure that grant debtors are recoverable and recognised at the balance sheet date where appropriate.</p>

Risks on your risk register likely to impact the audit

Following our review of your risk register, the risks noted below have been incorporated into our audit planning:

Risk	Mitigation against the risks	How incorporated into our audit?
Reduction in membership, leading to loss of credibility & legitimacy.	<ul style="list-style-type: none"> Active engagement with Councils Regular communication of WLGA achievements Regular review of governance 	Incorporated into the standard review of the quality of relationships with stakeholders.
The WLGA is not financially viable	<ul style="list-style-type: none"> Effective budget planning and management Financial strategy reviewed by Management Sub Committee Strategy for reducing the pension deficit agreed with Pension Fund Regular dialogue with Welsh Government, UK Government & other funders on grnat funding 	Incorporated into the standard review of the going concern assumption, with additional consideration this year for the impact of Covid-19.

Materiality

What is materiality

Although fundamental to the audit, rather than an auditing concept, materiality is first and foremost a financial reporting concept. We plan and perform our audit in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement and to issue our audit opinion.

Materiality depends on the size and/or nature of omissions or misstatements, judged in the surrounding circumstances. In broad terms, omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions taken on the basis of the financial statements by the relevant users of the financial statements.

Materiality levels

During the planning stage we have set a level of materiality, however we will reconsider materiality for the duration of our audit. If during our audit circumstances are brought to our knowledge that would have impacted the level of materiality set at the planning stage.

Planning materiality has been set using the interim audit TB. Once we have received the draft financial statements for the year, we will review the materiality set and update it accordingly.

Area	Benchmark	Level
Overall	2% of income	£360,000

Auditing standards require us to keep a record of misstatements in order to assess their impact on the financial statements both individually and in aggregate. In order to avoid the need to record differences which are clearly trivial to the financial statements as a whole we will set a de minimis level of 5% of the overall materiality.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

If material misstatements have been identified and corrected during the course of the audit, we will consider whether those corrections should be communicated to the you to assist it in fulfilling its governance responsibilities.

Audit timetable

Key timings and milestones in the delivery of the audit



Continuous Communication

- Continuous proactive discussion of issues as and when they arise; 'no surprises'
- Continuous evaluation and improvement of the audit
- Bringing you experience of sector and best practice
- Continue to work with internal audit functions where applicable

In the formulation of our audit strategy and throughout the completion of our audit work, we aim to anticipate and respond to the concerns of the company. Our timetable and reporting cycle has been discussed with Martin and is structured to ensure that all significant matters arising from our work are brought to the attention of the appropriate levels of management promptly. The reporting timetable is anticipated to be:

Key Dates	Event
18 March 2021	Audit planning meeting
22 March 2021	Interim Audit
15 April 2021	Planning report and interim audit report presented to the Board for approval
26 June 2021	AGM
28 June 2021	Final audit due to commence
TBA	Clearance audit meeting with the audit partner
TBA	Approval and signing of financial statements

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements/trial balance of good quality by the deadline you have agreed with us;
- Ensure that good quality working papers are available at the start of the audit;
- Ensure that the agreed information and reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection samples;
- Ensure that all appropriate staff are available throughout (or as otherwise agreed) the planned period of the audit;
- Respond promptly and adequately to audit queries; and
- If your circumstances change you will notify us as soon as possible and we will agree with you the effect on the timetable and any necessary revisions.

Accounting Estimates

Accounting Estimates

Estimates share one characteristic above all others – they are an attempt to look into the future and are consequently subject to a high degree of uncertainty and so inherent risk of misstatement. ISA 700 requires that an auditor expresses an opinion in terms of reasonable assurance. This requires us to state an opinion that we believe a set of financial statements present a true and fair view (or are fairly presented). The assertive nature of this opinion requires a substantial amount of robust evidence to support it.

It is logically impossible to say that an estimate about the future is certain to be right. It's much easier, however, to identify when an estimate is likely to be wrong. Due to the subjective nature of the estimates, we will assess and document our own independent assessment of estimation uncertainty of each material, subjectively valued item in the financial statements.

Our work will involve:

- Comparison of historical accuracy of management estimates compared with actual outcomes. The greater the variance between estimates and eventual outcomes, the greater the risk of error; either by high estimation uncertainty or weak control by management of the process of determining estimates.
- Develop our own point estimate, or range of estimates if a point estimate is not achievable.
- Assess for signs of management bias. The existence of management bias does not necessarily mean that management is incapable of producing a neutral estimate, but the chances of an estimate not being neutral are increased.
- Sceptically review assumptions used by management for internal consistency and ensure in accordance with observable market data.

Appendix 1 – Engagement team



Harri Lloyd Davies, Engagement partner

Hld@bevanbuckland.co.uk

Harri will have the overall responsibility of delivering a high quality audit service.

Harri is a qualified chartered accountant and passionate about his clients. Harri became a partner at Bevan Buckland LLP in May 2010.



Rebecca Burcher, Manager

rebecca.burcher@bevanbuckland.co.uk

- Becky will plan the audit, working with yours and our team to deliver a smooth, high quality audit.
- Becky is a qualified accountant and joined the firm in 2020 and has experience in managing audits in the sector.



Jessica Lewis, Senior Associate

jessica.lewis@bevanbuckland.co.uk

Jessica will carry out the audit, working with yours and our team to deliver a smooth, high quality audit.

Jessica is a qualified accountant and joined the firm in 2014 and has experience in working in audits in the sector.



OUR VALUES



Fairness



Quality



Respect



Integrity



Teamwork



Work Life
Balance

Our Mission: The partners and managers are committed to training and developing their staff to the highest possible standard.

Appendix 2 – Auditor independence and objectivity

Bevan Buckland LLP is required to maintain independence from WLGA in line with the Ethical Standard (2019) issued by the Financial Reporting Council (FRC) and the ethical pronouncements established by the auditor's relevant professional body, in our case the Institute of Chartered Accountants in England & Wales. In addition, our reputation and continued success as a firm depends on us maintaining auditor independence. We have procedures in place to ensure that any conflicts of interest of which we are aware are communicated to directors and appropriate action taken. This includes all relationships between Bevan Buckland LLP and WLGA that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity of the audit engagement partner and the audit staff.

However, there may be factors known by the board of which we are not aware. Our letter of engagement requires the board to notify us if it becomes aware that any person becomes connected with Bevan Buckland LLP and we will be asking the board to give us written representations that there are no such matters at the conclusion of the audit.

Maintaining and assessing our independence is a continual process throughout the audit cycle. However, we will formally confirm our independence and any significant matters we have considered in assessing any threats to our independence and objectivity in our Report to the board.

We will make enquires of all Bevan Buckland LLP teams providing services to you for compliance matters to ensure our independence is maintained.

We will bring to your attention any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of our engagement partner and staff.

We are not aware of any relationships between Bevan Buckland LLP and the WLGA, that in our professional judgement, may reasonably be thought to bear on our integrity, independence and objectivity at the date of the audit plan.

Safeguards

As part of the firms safeguards, all audits are subject to a review by a second partner or independent reviewing officer. The review will intake all high risk areas, significant judgements, financial statements, audit plan and audit findings reports.

The following other services are provided by Bevan Buckland LLP and the relevant safeguard applied is:

Non audit service

- The accounts will be prepared from your TB by a member of staff who is not part of this year's audit team. Any adjustments to the TB will be approved by yourselves.

Appendix 3 - Risks of fraud in the business

Where you perceive them and how they are managed

Fraud responsibilities

International Standards on Auditing (UK&I) require us to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

Fraud may arise externally, from third parties trying to defraud you, or internally; for example, manipulation of reporting of the financial position is fraudulent and management may also override controls to perpetrate other types of fraud.

The joint responsibilities of senior management and those charged with governance board in relation to fraud are illustrated below and we welcome the views of those charged with governance on the areas of potential risk and mitigating controls.

Opportunity	Incentive/Pressure	Rationalisation/attitude
<ul style="list-style-type: none"> •Circumstances that allow fraud to occur - weak internal controls 	<ul style="list-style-type: none"> •An employees mindset towards committing fraud 	<ul style="list-style-type: none"> •An individual's justification for committing fraud

Management's responsibility

Management's responsibilities in relation to fraud are to:

- Design and implement programmes and controls to prevent, deter and detect fraud;
- Ensure that your culture and environment promote ethical behaviour;
- Perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation; and
- Report significant fraud to the board.

Responsibility of those charged with governance

Your responsibility as part of your governance role is to:

- Evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate 'tone at the top';

- Investigate any alleged or suspected instances of fraud brought to your attention;
- Report significant fraud to a regulator

Our responses to fraud risks during the audit

The inquiries we make in relation to the fraud responsibilities are detailed below:

- Review of accounting policies;
- Results of analytical procedures;
- Whether management has knowledge of any fraud that has been perpetrated or any alleged or suspected fraud;
- Whether management is aware of allegations of fraudulent financial reporting, for example, because of communications from employees, former employees, service organisations or other stakeholders;
- Management's understanding of the risks of fraud, including any specific fraud risks identified or account balances or classes of transactions for which a risk of fraud may be more likely to exist;
- Programmes and controls that the company has established to mitigate specific fraud risks and how management monitors those programmes and controls; and
- Whether management has reported to the Board and how management believes internal control serves to prevent, detect or deter material misstatement due to fraud.

We are also required to discuss with those charged with governance

- The board view about the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud affecting the organisation; and
- How they oversee management's processes for identifying and responding to the risks of fraud and the internal control framework that management has established to mitigate these risks

Appendix 4 – Going Concern

The concept of Going Concern

An entity prepares financial statements on a going concern basis when, under the going concern assumption, the entity is viewed as continuing its operations for the foreseeable future. FRS 102 provides the following definitions:

Going Concern	Foreseeable future
<ul style="list-style-type: none"> • An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. 	<ul style="list-style-type: none"> • 12 months from the date of approval of the financial statements

The concept of going concern is an underlying assumption in the preparation of the financial statements, hence it is assumed that the entity has neither the intention, nor the need, to liquidate or curtail materially the scale of its operations. If management conclude the entity has no alternative but to liquidate or curtail materially the scale of its operations, the financial statements must be prepared on a different basis (such as the 'break-up' basis) and going concern cannot be used.

Who is responsible for assessing going concern

Those charged with governance (baord) are required to satisfy themselves that it is reasonable for them to conclude that it is appropriate to prepare financial statements on a going concern basis under UK GAAP. Additionally, the Accounts Regulations for small, medium and large-sized companies (SI 2008 No. 409 and 410) also include a presumption that a company will continue carrying on a business as a going concern.

Responsibility of those charged with governance

The assessment required to be performed by those charged with governance should consider all the facts and circumstances of an individual entity known at the date of approval of the accounts. The level of detail in the assessment and the extent of procedures

required to form such an assessment will vary depending on the size and complexity of the entity.

Although smaller entities may not prepare such a detailed analysis, it is recommended procedures as a minimum involve but not restricted too:

- Preparation of a budget;
- Trading estimates and cash flow forecasts; and
- An analysis of the entities borrowing requirements and facilities.

When preparing an assessment, a wide range of scenarios should be considered, and the entity consider a reasonable worst case scenario. If you would like any assistance in this area, please contact us.

Larger entities with for an increased complexity in their business model may need furth procedures as part of its assessment, such as:

- Financial and operational risk management;
- Annual reviews of medium/long term plans; and
- An analysis of the economic environment they operate in (market size and share, competitors, etc).

In order to conclude as to whether, or not, an entity is able to continue in operation for the foreseeable future, those charged with governance will have to make judgments on various uncertain future outcomes of events or conditions. ISA (UK) 570 outlines three factors that are relevant and which management must take into consideration when determining whether, or not, an entity can prepare the financial statements on the going concern basis:

- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs;
- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions; and
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Period of assessment

There is no maximum time period set in assessing going concern, however if the assessment is less than 12 months from the date of the approval of the financial statements this must be disclosed.

The auditor must request those charged with governance to extend its assessment to at least 12 months from the date of approval of the financial statements if the assessment covers less than 12 months.

If those charged with governance are unwilling to extend its assessment when requested by the auditor, the auditor shall discuss the matter with those charged with governance. If those charged with governance, do not provide sufficient information about the entity's ability to continue as a going concern, the auditor shall:

- Consider the implications for the auditor's opinion on the financial statements; and
- Determine whether there is a significant deficiency in internal control with regard to the board's assessment of the entity's ability to continue as a going concern.

Responsibility of the auditor

It is not the auditor's responsibility to determine whether, or not, an entity can prepare its financial statements using the going concern basis of accounting; this is the responsibility of management.

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on:

- Whether a material uncertainty relating to going concern exists; and
- The appropriateness of the board's use of the going concern basis of accounting in the preparation of the financial statements.

However, as described in ISA (UK) 200 the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict with certainty such future events or conditions. Accordingly, the absence of any reference to a material uncertainty related to going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Work of the auditor

The focus of the work of the auditor should be that of obtaining sufficient appropriate evidence to evaluate the management's assessment rather than rectifying the lack of analysis by an entity by producing an auditor's own detailed analysis.

The auditor shall perform audit procedures that include:

- Evaluating management's method to assess the entity's ability to continue as a going concern;
- Evaluating the relevance and reliability of the underlying data used to make the assessment;
- Evaluating the assumptions on which management's assessment is based by determining whether there is adequate support for the assumptions underlying;
- Considering whether any additional facts or information have become available since the date on which management made its assessment; and
- Requesting written representations from management and, where appropriate those charged with governance, regarding their plans for future actions and the feasibility of these plans.

Changes to International Standard on Auditing

Following high profile corporate failures such as Carillion and Thomas Cook the Financial Reporting Council revised ISA (UK) 570 Going Concern applying to periods commencing on or after the 15th December 2019. As a result, the auditor is required to more robustly challenge management's assessment of going concern to thoroughly test the adequacy of the supporting evidence and evaluate the risk management bias. When evaluating the evidence obtained, the auditor should take a stand back approach when drawing their conclusions on going concern.

There is a greater need for auditors to document how they have challenged management's going concern assessment. This requires a detailed review and assessment of assumptions used, the risks behind those estimates within the budgets, cashflows and forecasts, how these fit in with the auditors knowledge of the entity, the wider economy and therefore the appropriateness of the going concern basis. This means that there will be a significant drill down and rigorous testing undertaken on how management has demonstrated its going concern status and the evidence provided to the auditors.

In reality there will be little difference to the work undertaken as robust procedures would have been carried out in an auditors going concern work. However, the ISA is very prescriptive on the requirements to be documented and inevitably there will be additional documentation required to support the conclusions on the audit file. The 'stand back' requirement, which requires the auditor to consider all the evidence obtained before concluding on the going concern basis needs to be formally documented.

Although there is no requirement for you to have a formal going concern document, ISA (UK) 570 "Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor shall request management to make its

assessment". Therefore, we would recommend that a written assessment is prepared prior to the audit ready for us to assess using the new ISA requirements.

Impact on Covid-19 on going concern

There are likely to be a wide variety of impacts across the entity relating to the 'business' model, supply chain, legal and contractual issues, employees, consumers and working capital. Items to consider include:

- How has the 'business' model been impacted;
- Is there a supply chain risk? Are alternative suppliers readily available or difficult to find?
- Are there any legal or contractual issues? For example, how trustees of defined benefit pension schemes are dealing with obligations relating to contributions, and, if the entity is regulated, whether the entity is at risk of not meeting requirements.
- How has the entity dealt with the consequences of significant staff absences? Has there been an impact on the ability to operate as a result? What has been the impact of regulatory requirements designed to stop the spread of the virus?
- How have revenue streams been impacted? Income levels have fallen for many consumers and therefore will it have a knock on affect to your revenue stream? Has the entity considered longer term affects, it is possible that consumer requirements change as a result of a prolonged lockdown and not return to pre-lockdown conditions?
- How has cashflow and working capital more broadly been impacted?

Consider the timeline

There is still significant uncertainty as to when restrictions will be lifted and if they could be implemented again in future, therefore this will increase estimation uncertainty in cash flow forecasts. As a result, management will need to consider making assumptions around the timeline of lifting restrictions and the resumption of 'normal' activities. Items to consider include:

- How do restrictions impact critical aspects of the supply chain;
- What is the expected timing of lifting restrictions? Has the phasis of lifting restrictions been considered and how this will affect the entity?
- Has management considered further outbreaks and implementation of further restrictions?;
- Is there likely to be a temporary or permanent change to the business model? For example, it is likely that there will be an increased level of working from home

compared to pre pandemic, how would this impact the entity from a staffing or consumer view?

- What type of recovery has been factored into forecasts? Is the shape of recovery a sharp V shaped recovery or a slow L shaped recovery? However further outbreaks could result in a W shaped recovery.

Stress testing forecasts

When preparing the assessment, what scenarios and sensitivities have been considered in the assessing going concern, have a sufficient range been included, flex the 'business' model appropriately and consider how plausible the forecasts are. Have you considered:

- Additional outbreaks and closures;
- Impact of the loss of key staff;
- The risk of breaches of loan covenants or regulatory requirements;
- Contingent liabilities

Reverse stress testing is a valuable tool when assessing going concern. This involves testing which scenarios would make the 'business' model unworkable.

Appendix 5 - High Quality Audit

We bring together a number of key elements to ensure our audit is a high quality audit. The following diagram sets out the key components of our audit which are discussed in more detail in during this document.








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