

Private and Confidential

Terry Collier
Deputy Chief Executive
Spelthorne Borough Council
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12 September 2018

Dear Terry

BDO audit appointment and independence

I am writing in respect of our recent discussion regarding the commercial relationship between BDO LLP and Spelthorne Borough Council and our independence as auditor to the Council.

We have been appointed by Public Sector Audit Appointments Limited (PSAA) as auditor for the period commencing 1 April 2018 as successor auditor to KPMG LLP.

Since our appointment, the Council has acquired the freehold interest in Thames Tower, Reading where we currently hold a lease under the terms arranged with the previous owner.

The Financial Reporting Council's Ethical Standard 2016 includes certain requirements for auditors to maintain independence and objectivity including prohibition on certain commercial or business relationships (section 2.27 of the guidance). One example of a commercial relationship given includes an audit firm leasing its office space from another entity. The prohibition does not apply where those relationships:

- Involve the purchase of goods or services from the firm or the entity in the ordinary course of business and on an arm's length basis and which are not material to either party; or
- Would be inconsequential to either party in the view of an objective, reasonable and informed third party. Where there are doubts about whether a relationship would be inconsequential to either party in the view of an objective, reasonable and informed third party, then the relationship is not regarded as inconsequential.

I have discussed this commercial relationship with the firm's Ethical Partner and we concluded that this does not present a threat to our independence and objectivity as auditor under this guidance as follows:

- The rental of office space is in the ordinary course of business of both BDO and the Council.
- The terms of the lease was negotiated at arm's length with the previous owner at market rates after taking into account advice of property advisors. Any future rent reviews as these fall due will be at market rates and both parties will take advice from their respective property advisors.
- Audit team staff and partners have no influence on office locations or rent negotiations since this is undertaken by the firm's Leadership Team and finance function.

- No senior staff on the audit team will be provided from the Reading office.
- The annual rents are approximately £500,000 and service charges approximately £100,000. These are not considered material to the firm or the Council when we apply a benchmark of 2% of total revenue / income to each party.

We have also discussed this matter and our conclusions with PSAA.

However, we would request that this is brought to the attention of the Audit Committee as Committee members may not necessarily come to the same conclusion and it is vitally important in today's environment around audit independence that Committee members are comfortable that this commercial relationship does not prejudice our independence and objectivity as auditor to the Council.

In the event that the Committee members do not believe that we should continue to act as auditors we will discuss this with PSAA and may, as a result, be obliged to resign our appointment as auditor.

I would be grateful if you could share this letter with the Chair of the Audit Committee and include this as an agenda item for the next Committee.

Yours sincerely



Leigh Lloyd-Thomas