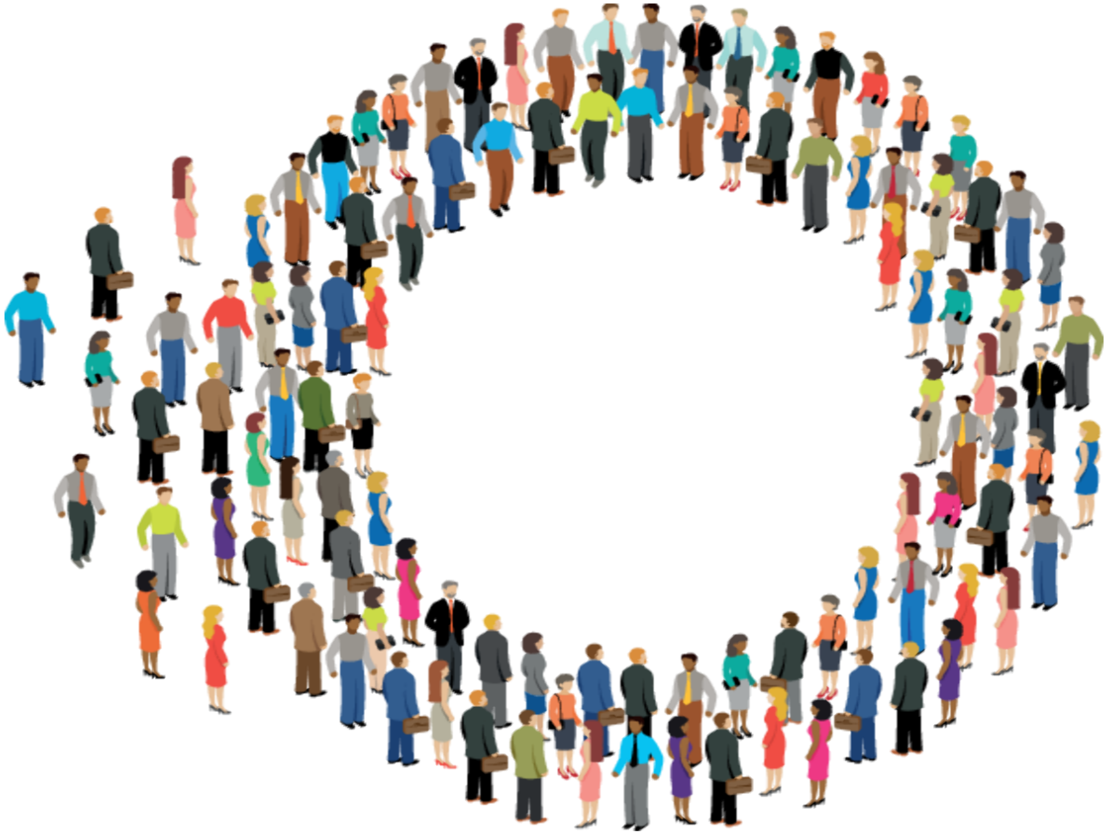

Epping Forest District Council

Report to the Audit and Governance committee on the audit for the year ended 31 March 2019

Issued 06 September 2019 for the meeting on 12 September 2019

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our report to the Audit and Governance Committee (the Committee) for the 2019 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2019.

Status of the audit

This is our first year auditing the Council and there has been significant delays in completing the audit process. This is because of delays in delivery of supporting working papers for audit from management and delays in receiving information and explanations in response to subsequent audit queries. This has been driven primarily by weaknesses in arrangements for the preparation of the statement of accounts and supporting work papers and the loss of key members of staff within the finance team, together with significant issues in the classification of transactions and balances within the financial statements, which in turn has delayed our testing in some areas. As a result, our audit is ongoing and, whilst a significant amount of work has been performed, we still need to complete a number of key areas of our work including:

- completion of audit work on significant risk areas;
- completion of audit work on non-significant risk areas;
- receipt of final statement of accounts;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2019 through to signing.

We will provide an oral update at the meeting.

We have commented on the more significant items that we have tested throughout this document and we have set out a summary of misstatements and disclosure deficiencies identified to date in an appendix to this report. As our audit work is ongoing, further misstatements may be identified through the completion of our remaining work.

Our work in relation to “Value for money” is currently ongoing and we will provide the committee with an oral update as to the status of our work in the meeting.

Our work on the financial statements of the Council is ongoing as detailed above and our final audit opinion will be dependent on the conclusion of that work.

Introduction

The key messages in this report (continued)

Narrative Report and Annual Governance Statement	Under International Standard on Auditing (ISA) (UK) 720A (revised), the Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, we are required to review the content of the Narrative Report and the Annual Governance Statement to identify material inconsistencies (if any) with the statements that they accompany. We are not required to give an opinion on the Narrative Report and Annual Governance Statement (and as such it is not considered an 'audited' statement). We are, however, required to read the Narrative Report and Annual Governance Statement to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor in the course of performing the audit. In performing our review of the Narrative Report and Annual Governance Statement, we have made observations which we have shared with officers, and summarised within this report, that we consider would further improve the document in line with the guidance set out in the CIPFA Code of Practice on Local Authority Accounting (the Code). Officers have considered our recommendations and we await an updated Narrative Report for review.
Management representations	We will obtain written representations from the Chief Financial Officer on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A draft of this document will be provided to the officers in due course.
Audit fee	As explained in our fee letter, our audit fee is based on assumptions about the scope of our work and the completeness and quality of information provided to support the draft financial statements and the timeliness and quality of responses to subsequent requests for information and explanation. We expected our audit to be complete at this point but for the reasons set out above it is ongoing. We estimate the amount of additional cost incurred to finalise the audit process to be £40k, which is based on the assumption that we will continue to progress and finalise our work over the coming weeks.
Duties as public auditor	We did not receive any queries or objections from local electors this year. We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Audit certificate	We are not able to issue our certificate until we have completed our work on the Council's Whole of Government Accounts (WGA) return. We do not expect to meet the reporting deadline for the issue of our opinion on the WGA return. We expect this work to be completed at the same time of issuing our opinion on the Council's statement of accounts.

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment

In our planning report we identified the key changes in your business. These were the adoption of new accounting standards relating to financial instruments and revenue and the development and construction of a number of leisure centres across the council.

Scoping

There have been no changes to the scope of our work which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out from page 6 of this report.

Determine materiality

We have set our materiality at £2m based on 2% of gross expenditure of the Council. This is revised from our planning materiality due to the identification of expenditure recharges incorrectly included in the first draft of the financial statements. The correction of this error resulted in a reduced expenditure balance.

We report to you in this paper all misstatements above £102k.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our observations on these risks arising from our work carried out to date on these risks in this report. No additional risks have been identified since our Audit Plan.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks from the work so far performed. The Committee must satisfy themselves that officers' judgements are appropriate and will need to agree arrangements to consider any significant findings arising from audit work which is not yet complete.

Our audit report

Our work on the financial statements of the Council is not yet sufficiently advanced to indicate the form of report we expect to issue.

Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for officers to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year were projecting underspends in operational areas and these were closely monitored during the year; and
- Senior officer's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting estimates

We have performed design and implementation testing of the controls in place on accounting estimates.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. As our work on property valuations is still ongoing, we will provide the Committee with an oral update during the meeting.

Status of our work and issues identified

We have identified control deficiencies, set out from page 11.

Our work on property valuations is still ongoing however we have not identified any significant bias in the key judgements made by officers based on work performed so far.

We have not identified any instances of inappropriate management override of controls in relation to the specific transactions tested based on work performed so far.

Significant risks

Capital expenditure

Risk identified

The council has continued with a programme of capital expenditure in 2018/19, with £26m of expenditure recorded in the year. This includes key projects such as the Hill House Leisure Centre (£5.1m) and the Burton Road House build (£4.2m).

Where the Council develops properties as part of its capital programme, determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

There is also an incentive to inappropriately capitalise expenditure as the Council has greater flexibility over its use of revenue compared to capital resources and we have therefore identified this area as a fraud risk.

Deloitte response

- We tested the design and implementation of controls around the capitalisation of costs.
- We selected a sample of capital items recognised in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

Status of our work and issues identified

Our work on capital expenditure is ongoing and we will provide the committee with an oral update during the meeting . So far we have identified some errors in relation to inappropriate capitalisation of demolition costs. These errors have been included within our schedule of unadjusted misstatements. Management have indicated to us that they will review these errors and make a decision on whether to adjust for these in the final statement of accounts.

Significant risks
Valuation of fixed assets and investment properties

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council held £776m of property assets at 31 March 2019, an increase of £20m, including a net revaluation gain of £6m and £26m of additions.

The Council updates the valuation of its properties using a rolling revaluation programme. In 2018/19, it engaged valuers to carry out the following valuation exercises:

- Perform a valuation of Council dwellings under the Council's 5 year rolling programme. The effective date of this valuation was 28 February 2019; and
- Perform a valuation of other properties due for valuation under the Council's 5 year rolling programme of valuations. The effective date of this valuation was 28 February 2019.

In addition, the Council commissioned its valuer to perform a market review providing information on market changes across 2018/19. On the basis of information provided, the Council determined there was no material change in the valuation of these properties.

The council held £117m of investment properties at 31 March 2019, an increase of £3.2m, including additions of £0.7m and a revaluation gain of £2.5m. Significant investments included within this are the Oakwood Hill ground and the North Weald Airfield. The council completes a full valuation of all its investments properties on an annual basis.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation, including how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation.
- We obtained an understanding of the approach to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets.
- We considered the impact of uncertainties relating to the UK's exit from the European Union upon property valuations in evaluating the property valuations and related disclosures.
- We have planned tests of inputs and the calculation of the movement to be recorded in the financial statements to check correctly recorded.

Status of our work and issues identified

Our work on property valuations is ongoing and we will provide the committee with an oral update during the meeting. Our valuation specialists did identify a number of recommendations as part of their review which will be shared with management so they can be discussed with your valuers.

Other areas of audit focus
Defined benefits pension scheme

Background

The Council participates in the Essex Pension Fund Local Government Pension Scheme, administered by Essex County Council.

The net pension liability has decreased from £74.9m at 31 March 2018 to £69.8m at 31 March 2019 primarily as a result of slight increase in the discount rates and movements in asset values.

The Council's pension liability is affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. The actuary has assessed the impact on the Council's liability as £1.6m which has been adjusted for.

Deloitte response

- We obtained a copy of the actuarial report produced by Barnett Waddingham LLP, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking as shown the table opposite.
- We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. We checked whether any significant changes in membership data were communicated to the actuary.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements as at 31 March 2018 and performed analytic procedures to test the asset value and movements for the year.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities made by Barnett Waddingham LLP.
- We reviewed the disclosures within the accounts against the Code.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.40	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.45	2.22	Reasonable, slightly Prudent
Salary increase (% p.a.) (over CPI inflation)	3.95	Council specific	Prudent
Pension increase in payment (% p.a.)	2.45	2.29	Reasonable
Pension increase in deferment (% p.a.)	2.45	2.24	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.30	21.20	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	22.90	23.00	Reasonable

Deloitte view

The Council has adjusted the pension liability for the impact of the McCloud case which amounted to £1.6m. The scale of impact is in particular driven by assumptions on future salary increases and the age of the membership.

An exercise performed by the Government Actuaries Department indicates that based on a salary increase of CPI and using the average age for the LGPS scheme as a whole of 46, the McCloud judgement would result in an increase in the pension liability relating to active members of 0.1%.

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

Arrangements to secure economy, effectiveness and efficiency from the Council’s use of resources

Background

Under the National Audit Office’s Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body’s arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment and audit work (which is in progress) includes:

- Obtaining an understanding of the Council’s Medium Term Financial strategy.
- Review of the internal audit reports provided to the council in the year.
- Reviewing the Council’s draft Narrative Report, Annual Governance Statement and relevant Council papers and minutes.
- Considering the Council’s financial results for the year and the assumptions in the budget for future years specifically looking at future debt levels, borrowing limits and expected capital receipts.
- Considering matters identified by the National Audit Office as potential value for money risks for Councils for 2018/19
- Reviewed the councils corporate risk register.

Deloitte view

Our work in relation to “Value for money” is currently ongoing and we will provide the Committee with an oral update as to the status of our work in the meeting.

Control observations

During the course of our audit we have identified internal control findings which we have summarised below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Area	Observation
Quality of draft financial statements	The initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard. Issues noted included: • Findings regarding the compliance of the narrative report, financial statements and annual governance statement with the CIPFA code; • Inconsistencies between notes in the financial statements; • Accounting policies not updated for the adoption of IFRS 9 and IFRS 15; • Accounts disclosures not updated for the adoption of IFRS 9; • Accounts disclosures not updated for the adoption of IFRS 15; • Differences between primary statements and notes; • Differences noted during our call and cast process; • Incorrect classification of transactions and balances; • Numerous differences noted between the financial statements and supporting working papers and/or an absence of suitable supporting working papers; and • A lack of knowledge about key balances due to a significant loss of corporate knowledge following the departure of a number of members of the finance team which was exacerbated by a lack of documented processes. Together these indicate weaknesses in the financial reporting and close process. We recommend the Council reviews the year-end reporting and close process, including: • Documented year end timetable that includes detailed guidance on processes and controls; • preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council; • documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts; • review of the completed CIPFA disclosure checklist; • documented and reviewed internal checks of internal consistency; • completion of the CIPFA "pre-audit checks on draft year-end accounts" checklist; and • documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.

Control observations (continued)

Area	Observation
Preparation of accounting papers	Accounting papers were not prepared to explain and support key judgements and estimates, including the ongoing pertinence of judgements made in previous years, or were not sufficiently detailed to explain and support those judgements and estimates. It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc.), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge is retained in the organisation. We recommend the Council adopts an approach of preparing papers for any key accounting judgements or issues arising. We also recommend that accounting papers are presented to the same meeting of the Committee at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the Committee's approval of the draft statement of accounts.
Documentation of controls and process	As described on page 3 of this report, there has been significant delays in the completion of the audit process and provision of key information. One of the reasons for these issues has been the significant turnover in the finance team and subsequent loss of corporate knowledge. This has been exacerbated by the processes and routines previously in place not being clearly documented, therefore restricting the level of knowledge and continuity. As it progresses its initiatives to improve the processes around financial control, we recommend the level of documentation is improved to mitigate any future loss of continuity within the finance team.
Review and approval of workings papers	A number of key working papers and reconciliations provided by management in the first instance were inadequate as they did not reconcile to the trial balance or contain the required level of detail. For example, the profit on disposal amount included in the accounts was misstated by £700k, with the workings provided to corroborate the amount containing a number of incorrect calculations. Whilst we note that in most instances subsequent workings have been provided by management which are correct, we recommend that a process of review and approval of all key working papers is embedded in the year end process to implement an appropriate level of quality control.

Control observations (continued)

Area	Observation
Controls of cash accounts	We have identified a number of bank accounts which are held by the council but are not recorded within the general ledger. Whilst the amounts held within these accounts are not material, there is an increased risk of error in reporting cash if the accounts are not correctly recorded. We recommend that the council undertakes a full review of its banking arrangements and considers closing any which are no longer in use, as well as ensuring all bank accounts are captured within the general ledger.
Maintenance of contact information and mandates with third parties	We have noted through our audit procedures that incorrect information is held with key third parties. For example, the bank mandates have not been updated to reflect turnover in key members of staff, and incorrect contact information is documented with the investment managers. This increases the risk of accounts being accessed by members of staff who have left, or the council being unable execute banking or investment changes without an individual with the required authority. We recommend that a regular review of this information is completed by the council to ensure the relevant changes are implemented on a timely basis.
Evidence of 'rents to mortgages' scheme	The council holds charges of £2.1m over properties sold by the council through a historic 'rents to mortgages' scheme. The council has been unable to provide the relevant supporting documentation to corroborate the charges held over the properties, and is therefore unable support the amounts recorded within the financial statements. Once the relevant documentation is provided by the council, we will complete our procedures in regards to this balance. However, we recommend the council reviews its processes for the retention of key legal documents such as this.
Disposal processes	Through our testing we have identified a number of assets which are still owned by the Council but are no longer in use. These have been incorrectly treated as disposals and have been removed from the fixed asset register. We have also identified £163k of costs relating to the demolition of garages which have incorrectly been capitalised in the year. Furthermore, we note there is no formal process of review and approval of disposals. We recommend this process is introduced to improve the controls surrounding asset disposals.

Control observations (continued)

Area	Observation
Depreciation policy	The council has an accounting policy to apply a full year of depreciation in the year of disposal and no depreciation in the year of acquisition, primarily for the reason that the fixed asset register is only updated at the end of year. This practice is not uncommon in the sector and does not have a significant impact on the carrying amount of assets where assets are acquired and disposed relatively evenly across the year. Management have prepared a high level calculation to assess the impact of this, which has been reviewed by the audit team. This assessment outlined the total net impact on depreciation as £64k, which is trivial. We recommend that management implements a process whereby the depreciation charge is retrospectively calculated based on the actual date of acquisition or disposal.
Production of debtor & creditors listings	The councils accounting system can only produce debtors & creditors listings on the date they are requested, and is therefore unable to provide retrospective listings. These listings were not produced the March 2019 year end and as a result full listings were not provided. Whilst management have been able to produce an alternative summary, this has been a time consuming task and has resulted in significant delays. We recommend the council ensures the production of these reports are embedded in the year end processes which is not disrupted by a loss of continuity in the finance team.
Elimination of internal recharges	Internal recharges should be eliminated from the presentation of income and expenditure in the Comprehensive Income and Expenditure Statement. £3.6m of expenditure has been identified which was incorrectly recorded within the financial statements. We recommend the council modifies its processes for recording expenditure to ensure all double counting is eliminated.
Retention of signed employee contracts	We have identified that the council does not retain signed employment contracts for a number of employees. We recommend that the council undertakes a review of its employment contracts to ensure a signed copy is in place for all members of staff.

Control observations (continued)

Area	Observation
New accounting standards – IFRS 9 and 15	Whilst we understand that officers discussed the impact of adoption of the new standards during the closure process, they did not prepare accounting papers on the transition to IFRS 9 and 15. The initial draft accounts were not updated for changes in disclosure requirements from IFRS 9 and 15. We are yet to receive managements assessment of these standards, which we will then assess to determine if the correct treatment has been applied. We also observe that because the new standards have been discussed as a one off exercise, new requirements will not have been embedded in the Council's underlying systems, processes and controls. This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected. We recommend that the Council reviews how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 and 15, and the process to be followed in assessing new and unusual transactions.
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. We recommend that the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems and would expect an accounting paper to be prepared for the purposes of 2019/20 audit.
Preparation of cash forecasts	We note that the council does not prepare detailed cash flow forecasts. This restricts the councils ability to manage its working capital effectively and inform medium and long term finance strategy and planning, including its capital expenditure programme and financing requirements. We therefore recommend the council produces, a monthly basis, detailed cash forecasts for a period of at least 12 months. We also recommend that the actual cash balances are then compared to the forecasts and explanations for any variances are provided.

Your annual report

We are required to report by exception on any where information in other information published with the financial statements (which is the Narrative Report and Annual Governance Statements) is inconsistent with the financial statements.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation	Under International Standard on Auditing (ISA) (UK) 720A (revised), the Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, we are required to review the content of the Narrative Report to identify material inconsistencies (if any) with the statements that they accompany. We are not required to give an opinion on the Narrative Report (and as such it is not considered an 'audited' statement). In performing our review of the Narrative Report, we have made observations which we have shared with officers, and summarised below, that we consider would further improve the document in line with the guidance set out in the CIPFA Code of Practice on Local Authority Accounting (the Code). We have recommended that the report is updated to address these points. Officers have considered our recommendations and we await an updated version for review.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. We have provided officers with our comments on this document and we await an updated version for review.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Governance Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit and Governance Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Craig Wisdom

for and on behalf of Deloitte LLP

St Albans

06 September 2019

Appendices

Audit adjustments
Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	*Memo: Debit/ (credit) usable reserves £m*	If applicable, control deficiency identified
Misstatements identified in current year						
Disposal costs capitalised	[1]	0.16	(0.16)	-	(0.16)	
Building value of garages transferred to assets under construction	[2]	0.34	(0.34)	-	(0.34)	
Total		**0.50**	**(0.50)**	**-**	***(0.50)***	

(1) The costs of disposing of buildings held by the council to then allow subsequent development of the land have been capitalised. This is disallowed under the CIPFA.

(2) The building value of garages held by the council which at year end were awaiting demolition have been transferred to assets under construction. The building value of the garages should have had accelerated depreciation (equal to their carrying value) charged on them and remained as depreciable assets. This is a judgemental misstatement based on a approximation of 55% of the garage value being attributable to the building.

Our audit is ongoing and further misstatements may be identified through performance of our remaining procedures.

Audit adjustments (continued)

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by officers. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	*Memo: Debit/ (credit) usable reserves £m*	If applicable, control deficiency identified
Misstatements identified in current year						
Eliminate internal recharges	[1]	3.6 / (3.6)	-	-	-	Yes
Accounting for outcome of McCloud judgement	[2]	1.6	(1.6)	-	1.6	
Housing benefit expenditure omitted from accounts	[3]	0.15	(0.15)	-	0.15	
Reclassification of overdraft balance	[4]	-	0.19 / (0.19)	-	-	
Misstatements identified in prior years						
Reclassification of money market investments	[5]	-	(8.0) / 8.0	-	-	
Capital receipts incorrectly used for capital spend	[6]	-	9.0 / (9.0)	-	-9.0	
Reclassification of overdraft balance	[4]	-	2.3 / (2.3)	-	-	
Total		**1.75**	**(1.75)**	**-**	**(7.25)**	

(1) Internal recharges have been incorrectly included gross in income and expenditure in the Comprehensive Income and Expenditure Statement. This adjustment nets down the recharge income against the matching expenditure item.

(2) Based on the outcome of the actuary's review of the impact of the McCloud judgement on pension liabilities an adjustment of £1.6m has been identified.

(3) £145k of housing benefit expenditure has been erroneously excluded from the accounts.

(4) £193k (£2,282k in prior year) of overdraft was classified as cash. The correct classification for this balance is to be shown as an overdraft in liabilities.

(5) £8m of short term money market investments funds were classified as cash equivalents. The correct classification for these balances is as a short term investment. Prior period adjustment required.

(6) Relates to capital receipts received for the construction of social housing being incorrectly used for ongoing capital expenditure. Adjustment is to deduct the balance from the capital adjustment accounts and move back into the deferred capital receipts reserve. The capital financing requirement will also increase.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified valuation of land and buildings, capital expenditure and management override of controls as key audit risks for the council.

During course of our audit, we have had discussions with officers and those charged with governance.

During course of our audit, we have had discussions with relevant officers and those charged with governance.

In addition, we have reviewed officer’s own documented procedures regarding fraud and error in the financial statements.

We have reviewed the Annual Governance Statement.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Governance Committee for the year ending 31 March 2019 in our final report to the Audit and Governance committee.
Non-audit fees	There are no non-audit fees.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Council, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees (continued)

	Planned fee £’000s (excl. VAT)
Code audit fee - Council	50
Estimated additional costs	40
Total audit	**90**
Total assurance services	**0**
Total fees	**90**

We have incurred additional costs in our work on the 2018/19 audit due to difficulties and delays in obtaining information and errors identified in the financial statements.

We estimate the amount of additional cost to completion currently to be £40k, however, any further delays in receipt of information, or significant issues, will result in additional costs being charged.