



Planning report to the Audit & Governance Committee for the year ending 31 March 2021

Issued on 15 November 2021 for the Audit & Governance Committee on 22 November 2021

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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 planning report to the Audit & Governance Committee for the 2020/2021 audit. We would like to draw your attention to the key messages as set out below:

Audit Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of Epping Forest District Council (“the Council”) which has been prepared in accordance with the Code of Practice on Local Authority Accounting (“the Code”) issued by CIPFA for the period ending 31 March 2021. We will conduct our audit in accordance with International Standards on Auditing (UK) (“ISAs UK”) as adopted by the UK Auditing Practices Board (“APB”), and Code of Audit Practice issued by the National Audit Office. Our responsibilities as auditor, and the responsibilities of the Council, are set out in the ‘PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies’ published by Public Sector Audit Appointments Limited.

Significant Risks

We have identified the following areas of significant audit risk for the 2020/21 statement of accounts audit, which are consistent with the significant risks of material misstatement in the previous year:

- Valuation of properties – Property assets (PPE) and investment properties – there is significant judgement over the subjective inputs to the valuation.
- Capitalisation of expenditure – there is judgement over the appropriate classification of spend between capital and revenue. The Council has greater flexibility over the use of its revenue compared to its capital resources. This provides a potential incentive to inappropriately classify spend as capital which does not meet the accounting criteria for classification as such.
- Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.

Our planning work has identified the following changes in audit risks:

- Risk of fraud in revenue recognition – we have identified this as a significant risk in the current year as, under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. Our judgement is that the significant risk at the Council relates to the recognition of Covid-19 grants with terms and conditions attached. There is a risk that the Council will recognise the income before the terms and conditions have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal.

Introduction

The key messages in this report (continued):

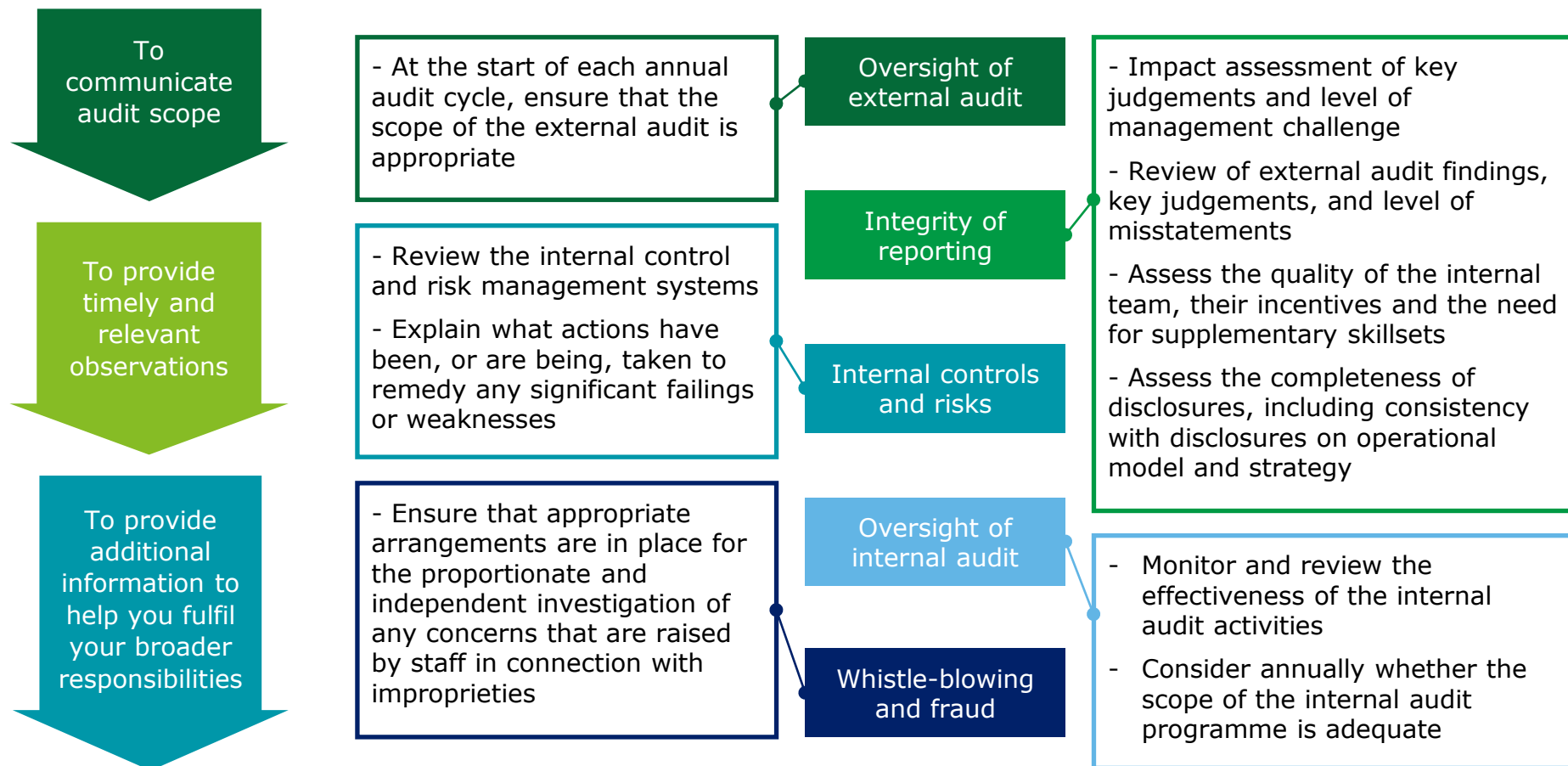
Value for Money	The National Audit Office's 2020 Code of Audit Practice revises the scope of the required work of the auditor on bodies' arrangements to secure value for money, moving away from a binary conclusion on arrangements in the audit report to a narrative commentary in a new "Auditor's Annual Report" (which replaces the Annual Audit Letter). The new requirements in this area are discussed further on page 19.
Brexit	The Council will be preparing its Annual Report against the backdrop of continued uncertainty related to Brexit. The Council will also need to consider the inclusion of Brexit in the Annual Report for 2020/21, particularly in the areas of risk reporting, going concern and impairment.
Covid-19	See pages 12 - 13 for details of how Covid-19 may impact the Council's Narrative Report, financial statements and the overall audit process.

Responsibilities of the Audit & Governance Committee

Helping you fulfil your responsibilities

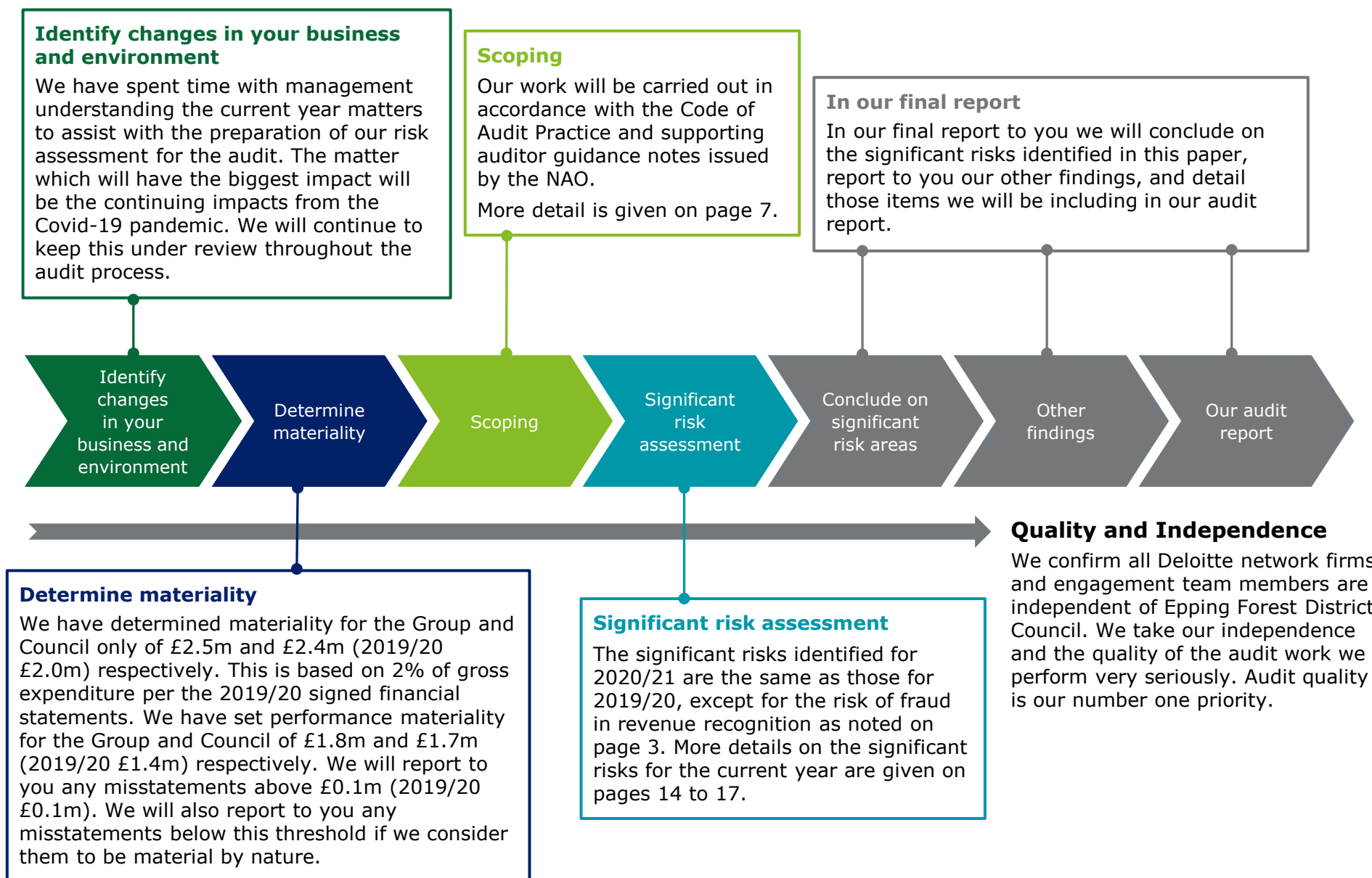
Why do we interact with the Audit & Governance Committee?

As a result of regulatory change in recent years, the role of the Audit & Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit & Governance Committee responsibility to provide a reference in respect of these broader responsibilities.



Our audit explained

We tailor our audit to your business and your strategy



Scope of work and approach

We have four key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISAs (UK)") as adopted by the UK Auditing Practices Board ("APB"). The Council will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure; and
- Are prepared in line with the Code of Practice on Local Authority Accounting ("the Code").

Annual Governance Statement

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the Statement of Accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the Council's arrangements for securing value for money through economy, efficiency and effectiveness in its use of resources.

Value for Money conclusion

The National Audit Office's 2020 Code of Audit Practice revises the scope of the required work of the auditor on bodies' arrangements to secure value for money, moving away from a binary conclusion on arrangements in the audit report to a narrative commentary in a new "Auditor's Annual Report" (which replaces the Annual Audit Letter). See page 19 for full details of the new requirements in this area.

Group audit

We are undertaking our scoping of the components for the Group audit and will perform direct testing of the subsidiary balances which are material to the Group financial statements. In the prior year, we noted the main subsidiary companies in the context of the Group audit were not considered to be significant components due to their size.

Scope of work and approach

Our approach

Liaison with Internal Audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of Internal Audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review Internal Audit reports and meet with the team to discuss their work. We will discuss the work plan for Internal Audit, and where they have identified specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with Internal Audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

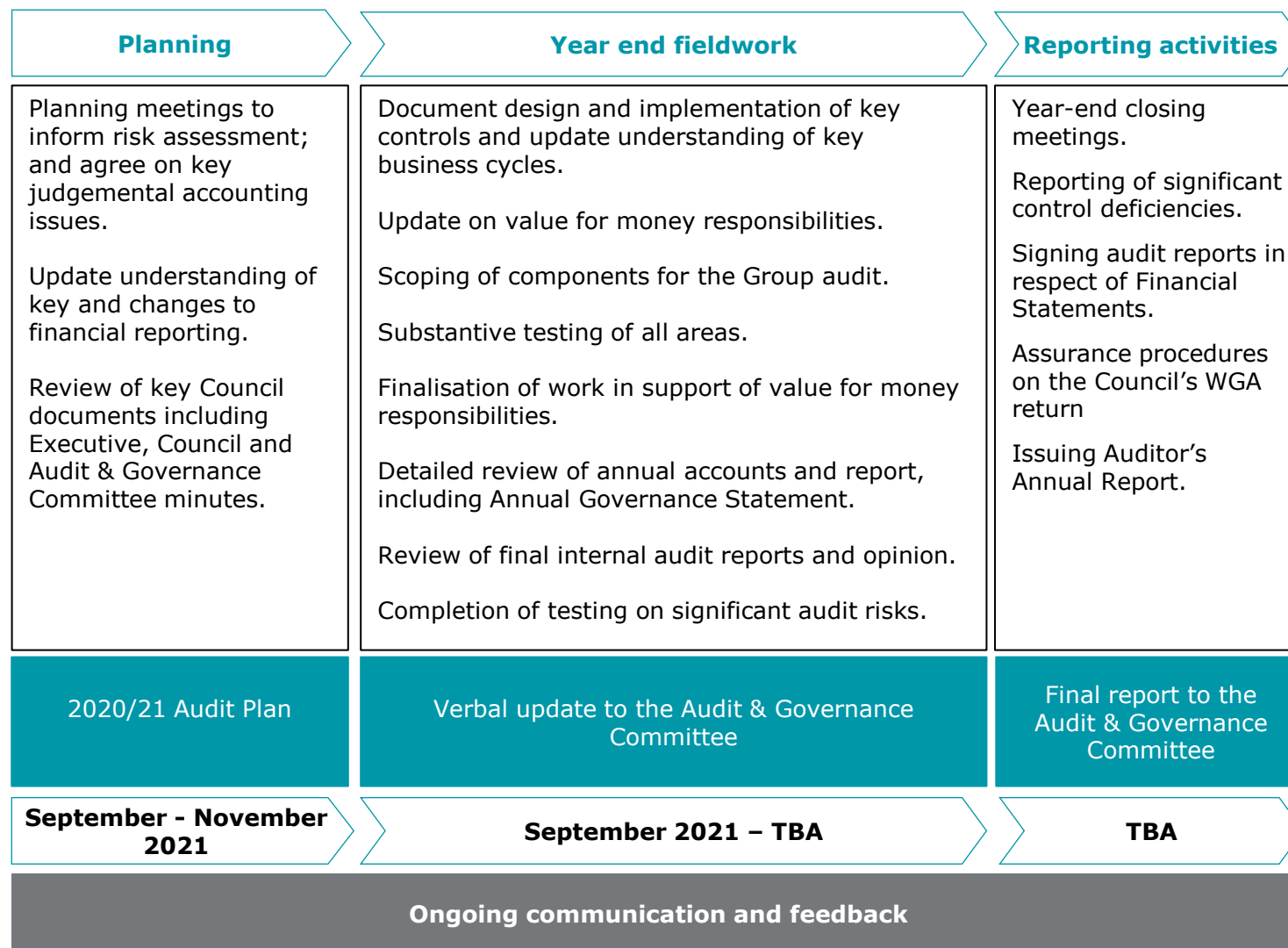
We recommend the Council complete the Code checklist during drafting of their financial statements.

We will perform an early review of the draft financial statements and will provide any insights to management on a timely basis.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you. We note that the timetable for the 2020/21 audit has been impacted by the conclusion of the 2019/20 audit which was completed in July 2021. We will work with management to provide a more conclusive reporting timeline to the Council in due course.



Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the Narrative Report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the Narrative Report and financial statements;
- the disclosures made by the Audit & Governance Committee in their previous Audit & Governance Committee report;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last Narrative Report and financial statements.

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

Page 14 to 17 outlines the significant risks that we will focus on during our audit.

Principal risk and uncertainties

- Resource management
- Information governance
- Ability to secure commercial opportunities
- Underachievement of savings
- Health & Safety

Changes in your business and environment

- Impacts of Covid-19
- Upcoming capital projects

IAS 1 Critical accounting estimates

- Future funding levels
- Property valuations
- Recognition of schools' fixed assets
- Pension liabilities
- Valuation of investments
- Provisions and contingencies
- Investment valuations

NAO – Auditor Guidance Note 06

The National Audit Office identified transitional protection for certain pension scheme members, Guaranteed Minimum Pensions Equalisation, Dedicated Schools Grant – negative reserve, and pension guarantees to other entities as key issues in their Local Government Audit Planning guidance issued in June 2021.

We reviewed the approach being taken by the Council in response to these in the prior year audit and will refresh our understanding for the current year.

We do not believe any of these matters represent a significant audit risk but we will carefully review the approach being taken by the Council to address these issues.

Materiality

Our approach to materiality

Basis of our materiality benchmark

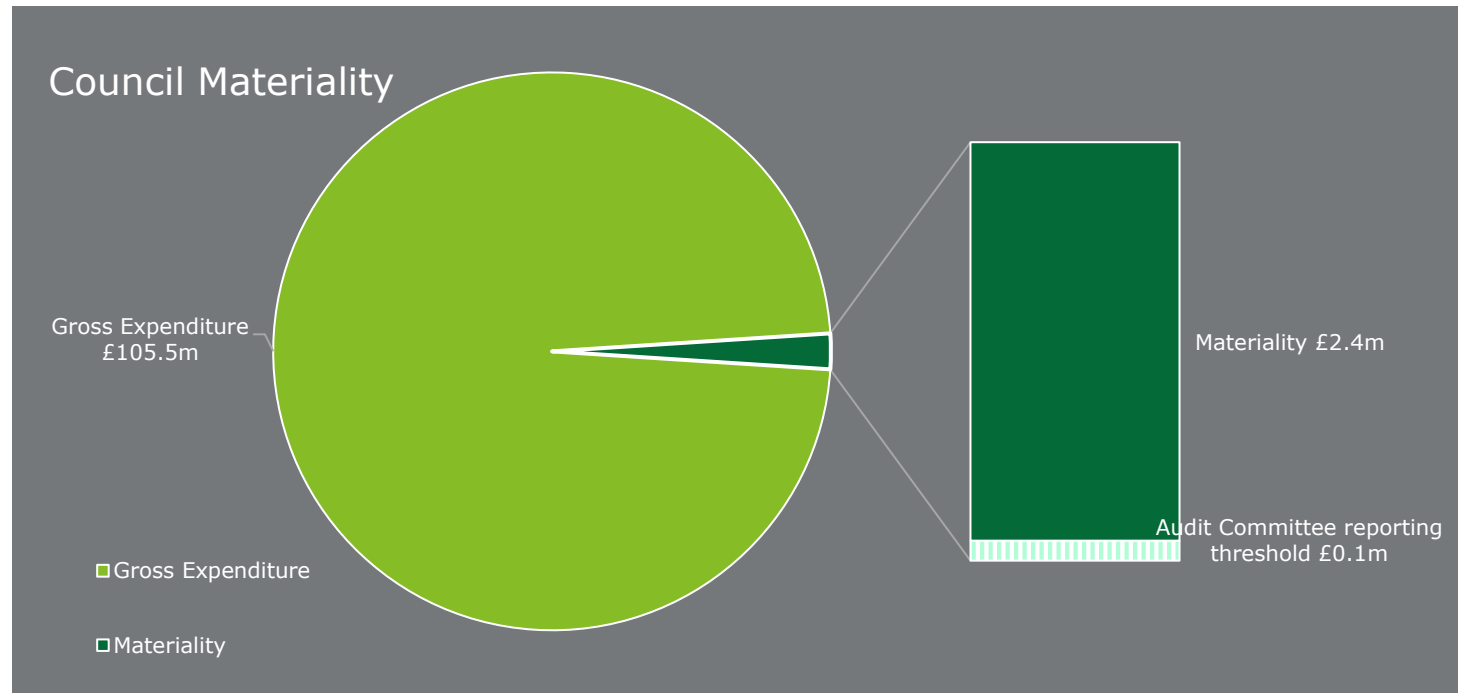
- We have determined materiality for the Group and Council only of £2.5m and £2.4m (2019/20 £2.0m) respectively, based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of gross expenditure based on the signed 2019/20 accounts as the benchmark for determining our preliminary materiality.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.1m (2019/20 £0.1m).
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Reporting on Group Accounts

- Based on our assessment of the draft year end position we have identified that we will need to undertake detailed testing on the subsidiary balances which are material to the Group financial statements.



Although materiality is the judgement of the audit partner, the Audit & Governance Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Covid-19 pandemic and its impact on our audit

Requirements	<p>CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments.</p> <p>Entity-specific explanations of the current and expected effects of Covid-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.</p> <p>As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.</p>
Actions	<p>We therefore expect a thorough assessment of the current and potential future effects of the Covid-19 pandemic including:</p> <ul style="list-style-type: none">• A detailed analysis across the Council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;• The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); and• The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Impact on the Council

We will consider the key impacts on the business such as:

- Interruptions to service provision
- Supply chain disruptions
- Unavailability of personnel
- Reductions in income
- The closure of facilities and premises

Impact on annual report and financial statements

We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:

- Principal risk disclosures
- Impact on property, plant and equipment
- Valuation of commercial or investment properties
- Impact on pension fund investment measurement and impairment
- Going concern assessment
- Events after the reporting period and relevant disclosures
- Bad debts provision policy
- Narrative reporting
- Impairment of non-current assets
- Allowance for expected credit losses

Impact on our audit

We have considered the impact on the audit including:

- Resource planning
- Timetable of the audit
- Impact on our risk assessment
- Logistics including meetings with entity personnel

Covid-19 impact on annual report and financial statements

Impact on property, plant and equipment	<p>The Royal Institute of Chartered Surveyors issued a practice alert in March 2020, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and “emphasis of matter” paragraphs in audit reports. By September 2020, RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2021 are not expected to be affected by material valuation uncertainties. However, the on-going financial impact of the pandemic has impacted valuations, both through demand for particular asset types and weakening the financial standing of tenants.</p> <p>The Council needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council should consider with their valuers the impact that Covid-19 has had on current value. The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.</p>
Valuation of commercial or investment properties	<p>Following the Covid-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needs to be reviewed against the conditions and assumptions at the measurement date. Although volatility is lower relative to 31 March 2020, there have been significant market movements during the year which may impact valuations.</p>
Expected credit losses	<p>Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.</p>
Financial risk disclosures	<p>The Council needs to report on the impact of financial pressures and its financial sustainability in the Narrative Report and the relevant liquidity reporting requirements under the Code’s adoption of IFRS 7 Financial Instruments: Disclosures.</p>
Narrative and other reporting issues	<p>The following areas will need to be considered by local authorities as having being impacted on by the Covid-19 pandemic.</p> <ul style="list-style-type: none">• Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability.• Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities
Events after the reporting period	<p>The economic environment and impact of the pandemic continues to be highly uncertain. The Council will need to consider the events after the reporting period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. The nature of the Covid-19 pandemic will mean that the Council will need to continue to review and update these assessments up to the date the accounts are authorised for issue.</p>

Significant risks

Risk 1 – Property Valuations

Risk identified

The Council held dwellings of £688m and other land and buildings of £63m at 31 March 2020 which are required to be recorded at current or fair value at the balance sheet date. The Council also held £6m of commercial investment property.

The fixed asset portfolio is divided into five key asset categories. The Council's practice is to obtain a specific valuation on one of the five asset categories on a cyclical basis. This approach leads to the full asset portfolio being evaluated within each five-year period. In addition to this specific exercise the Council also obtains advice as to whether there has been a material change in the period up to the balance sheet date based on indices. Any changes based on index factors are then applied to the total asset base.

Key judgements include:

- Whether there has been a material change since the date of the last valuation.
- In the valuation of dwellings, defining appropriate beacon groups, such that the level of homogeneity of properties within each group is appropriate, and selecting appropriate comparators and, where relevant, making appropriate adjustments. Council Dwellings are in scope for full revaluation for 2020/21.

Our response

Our work in this area will include the following:

- We will test the design and implementation of key controls in place around the property valuation.
 - We will use our valuation specialists, Deloitte Real Estate, to review the methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs. This will support confirmation that the valuation movements are consistent with expectations seen in other data regarding the property market.
 - Our specialists will also evaluate the methodology applied in and the outcomes of the full valuation of the Council Dwellings category, performed as at 31 March 2021.
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Significant risks

Risk 2 – Capital Expenditure

Risk identified

The Council has a substantial capital programme, and had budgeted £42.7m for capital works during 2020/21 (2019/20: £49.5m). Key projects include capital component replacement and house building schemes, as well as refurbishment of the Civic Offices and Ongar Leisure Centre.

Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore a potential incentive for officers to misclassify revenue expenditure as capital as will impact the surplus/deficit recorded by the Council at year end.

Our response

Our work in this area will include the following:

- We will test the design and implementation of controls around the capitalisation of costs.
- We will select a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

Significant risks

Risk 3 – Management Override of Controls

Risk identified

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

The key judgements in the financial statements include those which we have selected to be the significant audit risks, (valuation of the Council's properties and recognition of Covid-19 grant income) and any one-off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- We will test the design and implementation of key controls in place around journal entries and key management estimates;
 - We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;
 - We will review accounting estimates for biases that could result in material misstatements due to fraud; and,
 - We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
-

Significant risks

Risk 4 – Risk of Fraud in Revenue Recognition

Risk identified

Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, specifically around the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions of the Covid-19 grants have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal.

Our response

Our work in this area will include the following:

- We will test the design and implementation of key controls in place around the recognition of Covid-19 grant income;
 - We will review the accounting treatment of new Covid-19-related grants for 2020/21 to confirm that they have been correctly accounted for as either an Agent or Principal arrangement; and
 - We will test a sample of grants including the new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income.
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Other areas of audit focus

Pension liability



Risk identified and key judgements

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

As at 31 March 2020, the Council had a £2.7m pension deficit on its balance sheet. Pension assumptions are a complex and judgemental area and the calculation is reliant on accurate membership data provided to the actuary.

We have thus identified this as an other area of audit focus to report to the Audit & Governance Committee as a key area of management judgement.

LGPS

For the LGPS (Local Government Pension Scheme), it is possible to identify Epping Forest District Council portion of the assets and liabilities, and the Local Authority Accounting Code of Practice requires full disclosure of the Council's share of the LGPS within its financial statements. There are a large number of judgments inherent in the calculation of the scheme liability, including future inflation rates and appropriate discount rates. Small movements in these rates can have a material impact. Additionally, there are judgements implicit in allocating Epping Forest District Council's share of the assets of the scheme.



Deloitte response and challenge

We carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data provided by the Council) using a developed methodology which takes into account factors such as an assessment of the actuary carried out centrally by our actuarial experts and whether there have been any significant changes expected in the membership. We scope our work, including the nature and extent of our actuarial specialists involvement, in a way which responds to this detailed risk assessment. In relation to pension assets, we will seek to obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.

We will review the disclosure based on the IAS 19 report issued to the Council's by the actuary and we will assess the competence and objectivity of the work of the actuary.

We will review and challenge the calculation of the McCloud and Goodwin case on pension liabilities and review the disclosure within the accounts against the code.

Value for Money

Areas of focus

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria:
 - **Financial sustainability:** How the body plans and manages its resources to ensure it can continue to deliver its services.
 - **Governance:** How the body ensures that it makes informed decisions and properly manages its risks.
 - **Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report (which replaces the Annual Audit Letter), setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements, including the timetable required for VfM work and reporting for 2020/21.

Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

Specific areas that we expect to focus on in understanding the Council's arrangements include the Council's response to the financial pressures from Covid-19 in 2020/21 and the Council's longer term planning for financial sustainability.

Financial Sustainability

The Council, like most of local government, faces significant challenges over the short and medium term due to the ongoing cuts in funding and increased demand for services. Covid-19 presents a significant financial challenge for the Council in 2020/21 and beyond.

Our work in this area will involve:

- Obtaining an understanding of the Council's Medium Term Financial Plan, budget for 2021/22 and transformation programmes;
- Discussions with the Director of Resources, and senior operational staff;
- Review of the Council's draft Narrative Report, Annual Governance Statement and Council papers and minutes;
- Consideration of issues identified in our financial statements audit work;
- Consideration of the Council's financial results, including delivery of savings, and the Council's plan; and
- Review of any reports from regulators issued in the year.

Revisions to auditing standards coming into effect

ISA (UK) 570 – Going concern

The Financial Reporting Council (FRC) issued a revised going concern standard in September 2019, that takes effect for periods commencing on or after 15 December 2019. For Local Government bodies, this will be March 2021 year ends and later.

The revision was made in response to recent enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We have summarised below the key areas of change in the standard – however, the Public Audit Forum is also consulting on changes to Practice Note 10, with the intention of reflecting public sector considerations in the approach to going concern, and so the ultimate impact of ISA (UK) 570 changes will be affected by this.

The key changes affect:

- Risk assessment procedures and related activities, increasing consideration of the entity's business model, operations and financing;
- The auditor's evaluation of management's assessment of the going concern assumption (which therefore requires a clearly documented assessment);
- Enhanced professional scepticism requirements, including around the evaluation of the sufficiency and appropriateness of audit evidence;
- Considering the appropriateness of disclosures; and
- Reporting in enhanced audit reports.

"The revised standard means UK auditors will follow significantly stronger requirements than those required by current international standards."

FRC's press release, 30 September 2019

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Board (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 *Financial Instruments*, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020. For Local Government bodies, this will be March 2021 year ends and later.

We summarise on the next few slides how this will impact our audit.

“There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates”

FRC letter to the IAASB, July 2017

Area of change	Impact on our audit	Impact on the directors
Assessment of oversight and governance relating to estimates	In connection with our planning work to understand the entity and its environment, including internal control, we will specifically inquire regarding management’s processes, and the oversight and governance of those processes relating to accounting estimates.	You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof.

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the directors
<p>Identification of inherent risk factors; separate assessment of inherent risk and control risk</p> <p>Objectives-based work effort requirements</p>	<p>Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them.</p> <p>We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty.</p>	<p>You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the financial statements.</p>
<p>Enhanced “stand back” requirement, to evaluate the audit evidence obtained</p>	<p>We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence.</p>	<p>You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence.</p>

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the directors
Enhanced requirements about whether disclosures are “reasonable”	The extant ISA 540 required us to evaluate whether disclosures were “adequate”. The change to “reasonable” will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.	You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty.
New requirements when communicating with those charged with governance	In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors.	You should expect increased reporting in relation to accounting estimates.

Areas where we consider the impact to be greatest:

Key areas impacted will include property and pension valuations, revenue recognition and provisioning, accruals and provisions.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our audit plan, includes our consideration of key audit judgements and our planned scope.

Use of this report

This report has been prepared for the Audit & Governance Committee on behalf of the 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

What we don't report

As you will be aware, our audit is 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 management or by other specialist advisers.

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

Other relevant communications

We will update you if there are any significant changes to the audit plan.

In the prior year, we communicated audit findings and control recommendations to management, and these will be followed up as part of our audit visits to assess how these have been addressed in the current year.

A handwritten signature in black ink that reads "Deloitte LLP".

Deloitte LLP

Birmingham | 15 November 2021

Appendices



Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management 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.



Our Responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in capital expenditure, valuation of land and buildings, Covid-19 grant income recognition and management override of controls as key audit risks for the Council.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

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 & Governance Committee for the year ending 31 March 2021 in our final report to the Audit & Governance Committee.
Fees	There are no non-audit fees for 2020/21 outside of those noted in the table on the following page.
Non-audit services	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 directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees (continued)

The professional fees expected to be charged by Deloitte in the period from 1 April 2020 to 31 March 2021 are as follows:

	Current year £	Prior year £
Financial statement audit including Whole of Government [1]*	49,797	49,797
Additional fee for prior year audit [2]*	-	29,795
Additional fee for changes in the current year [3]*	70,200	-
Total audit fees	119,997	79,592

[1] The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will be looking to discuss with the Council the current level of fee.

[2] Fee for additional audit work relating to 2019/20.

[3] Fees for additional audit work relating to changes to the work required on Value for Money, group audit considerations as a result of Qualis, updated auditing standards and Covid-19 procedures is under negotiation with senior management.

* All additional fees are subject to agreement with PSAA.

Our approach to quality

AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2020/21 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard.

We agree with and accept the FRC’s findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three

inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>



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