Supplementary Committee Agenda

Epping Forest District Council

Audit & Governance Committee
Monday, 28th September, 2020

Place:	Virtual Meeting on Zoom
Time:	7.00 pm
Democratic Services:	Gary Woodhall Tel: 01992 564243 Email: democraticservices@eppingforestdc.gov.uk

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11. ANY OTHER BUSINESS

(Democratic & Electoral Services Manager) Section 100B(4)(b) of the Local Government Act 1972 requires that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

11.a TREASURY MANAGEMENT OUTTURN REPORT 2019/20 (Pages 77 - 94)

(Section 151 Officer) To consider the attached report concerning the Council's Treasury Management activities in 2019/20 and proposed amendments to two Treasury Management Investment limits (AGC-014-2020/21).

11.b AUDIT PLANNING REPORT - YEAR ENDED 31 MARCH 2020 (Pages 95 - 116)

To consider the attached Audit Planning Report from the External Auditors for the year ended 31 March 2020.

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Report to the Audit & Governance Committee

Report reference: AGC-014-2020/21
Date of meeting: 28th September 2020

Epping Forest District Council

Portfolio: Finance & Economic Development

Subject: Treasury Management Outturn Report 2019/20

Responsible Officer: Andrew Small (01992 564278).

Democratic Services: Gary Woodhall (01992 564243).

Recommendations/Decisions Required:

(1) To note the Treasury Management Outturn Report for 2019/20 *(Appendix A)* and pass comment for full Council.

(2) To consider and recommend for approval to full Council, the following amended Treasury Management Investment Limits:

- **Single Institution (excluding the UK Government) – £4 million (up from £3 million)**
- **Money Market Funds (MMF) – £10 million per MMF (removing total limit of £10 million).**

Executive Summary:

The Council's Treasury Management Strategy for 2019/20 was considered at a meeting of the Audit and Governance Committee on 28th January 2019 and was subsequently agreed by full Council on 21st February 2019.

In accordance with CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) and generally accepted good practice, the Treasury Management Outturn Report for 2019/20 (presented in ***Appendix A***) sets out the Council's actual Treasury Management activity for 2019/20, including the year-end position contained in the Council's (draft) Statement of Accounts for 2019/20.

The report begins by setting the external context for 2019/20 by exploring the Economic Background, Financial Markets and Credit Ratings; this includes a discussion on the early impact of the Covid-19 Pandemic.

The 2019/20 Borrowing and Investment position for Epping Forest DC shows the following:

- Borrowing – external borrowing rose by £39.0 million (from £185.5 million to

£224.5 million) in the year; and

- Investments – up £5.5 million (from £16.5 million to £22.1 million).

CIPFA's revised Code now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds, primarily for financial return. The report therefore also considers the Council's Commercial Property Portfolio, which delivered Net Income of £6.216 million in 2019/20 and continues to be a key part of the Council's strategy to minimise Council Tax increases. Some valuation losses were experienced though, predominantly on Shops, due to unfavourable market conditions.

The report concludes by considering compliance with the Council's adopted Treasury Management and Prudential Indicators. Full compliance was achieved on an overwhelming majority of indicators. However, the cash requirements of the Council's recently expanded commercial activities, has led to some technical breaches, especially on Investment Limits. Consequently, some revisions are proposed to current Investment Limits, which will help to re-balance risk and operational need.

Reasons for Proposed Decision:

To enable the robust scrutiny the Council's Treasury Management performance in 2019/20 in compliance with CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) and generally accepted good practice.

Legal and Governance Implications:

The Local Government Act 2003 created a framework for the financing of capital investments in local authorities which came into operation from April 2004. Alongside this, the Prudential Code was developed by CIPFA as a professional Code of Practice to support local authority decision making in capital investment and financing. Local authorities are required by regulation to have regard to the Prudential Code.

Safer, Cleaner and Greener (SCG) Implications:

None.

Background Papers:

Treasury Management Strategy Statement 2019/20 (Audit and Governance Committee, 28th January 2019).

Risk Management:

There are a range of inherent financial risks associated with Treasury Management activity; not least the potential for loss of interest and/or deposits. The Council therefore engages the services of external Treasury Management advisors, Arlingclose Ltd.

Borrowing and Investment decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. The Strategy includes several Risk Management features, including – for example – the overriding priority that security of deposit takes precedence over return on investment.

Appendix A

Treasury Management Outturn Report 2019/20

Introduction

The Council has adopted CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve Treasury Management semi-annual and annual reports.

The Council's Treasury Management Strategy for 2019/20 was considered at a meeting of the Audit and Governance Committee on 28th January 2019 and was subsequently agreed by full Council on 21st February 2019. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

Treasury risk management at Epping Forest DC is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 21st February 2019.

External Context: review of 2019/20

Economic Background: The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April 2019, then to 31st October 2019 and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of the December 2019 General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation fell to 1.7% (year on year) in February 2020, below the Bank of England’s target of 2%. Labour market data remained positive. The International Labour Organisation (ILO) unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Quarter 4 2019 was reported as flat by the Office for National Statistics (ONS) and service sector growth slowed down, with production and construction activity contracting on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis, with a shift in investments towards sovereign debt and other perceived ‘safe’ assets.

In response to the spread of the virus and sharp increase in those infected, the Government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages, as they attempted to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held rates steady at 0.75% through most of 2019/20, moved in March 2020 to cut rates to 0.25%, and swiftly thereafter brought them down further to a record low of 0.1%. In conjunction with these cuts, the UK government introduced a range of measures to help businesses and households affected by a series of ever-tightening social restrictions (‘lockdown’).

The US economy grew at an annualised rate of 2.1% in Quarter 4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely affected sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August 2019. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also introduced a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial Markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March 2020, sterling reached its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets rebounded but remained volatile. Gilt yields fell substantially; the 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March 2020. The 10-year benchmark yield fell from 1.0% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Credit Review: In Quarter 4 2019, Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a Negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a Stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to Stable from Negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March 2020.

Fitch downgraded the UK sovereign rating to AA- in March 2020, which was followed by a range of actions on UK and Non-UK banks. This included revising the outlook on all banks on the Counterparty List to Negative; the exceptions were Barclays Bank, Rabobank, Handelsbanken and Nordea Bank, which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to Negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. However, HSBC Bank and HSBC UK Bank had their long-term ratings increased by Fitch to AA-.

Local Context

On 31st March 2019, the Council had net borrowing of £168.9 million arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/19 Actual £m
General Fund CFR	73.008
HRA CFR	154.391
Total CFR	**227.399**
Less: Other Debt liabilities (Finance Lease)	-1.163
Borrowing CFR	**226.236**
Less: External borrowing	-185.456
Internal borrowing:	
Less: Usable reserves	-48.462
Less: Working capital	-8.874
Net Investments	**16.556**

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The Treasury Management position at 31st March 2020 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/19 Balance £m	Movement £m	31/03/20 Balance £m	31/03/20 Rate %
Long-term Borrowing	185.5	+25.0	210.5	2.94
Short-term Borrowing	0	+14.0	14.0	2.0
Total Borrowing	**185.5**	**+39.0**	**224.5**	
Long-Term Investments	0	0	0	N/A
Short-term Investments	16.0	-16.0	0	N/A
Cash and Cash Equivalents	0.6	+21.5	22.1	0.01
Total Investments	**16.6**	**+5.5**	**22.1**	
Net Borrowing	**168.9**	**+33.5**	**202.4**	

The Council's cash flows during March and April 2020 were unusual, due to the combined impact of the Qualis initiative and the Covid-19 pandemic. Thus:

- *Long-Term Borrowing* – long-term borrowing increased gradually during the year as planned, due to the growing financing requirements of the General Fund Capital Programme

- *Short-Term Borrowing* – short-term (predominantly 30-day loans) borrowing of £14.0 million from other local authorities was secured in late March 2020, based on the anticipated financing needs of the Qualis initiative in April 2020

- *Short-Term Investments* – the Council's investment portfolio was gradually eliminated during the year as part of a cost-effective strategy for reducing the net financing costs of the General Fund Capital Programme (through minimising the need for external borrowing); and

- *Cash and Cash Equivalents* – due to the combined effects of the increase in short-term borrowing and the reduction in short-term investments (both highlighted above), year-end cash balances were temporarily much larger than usual (partly due to Treasury Management advice, which was to carry higher balances in the light of the volatility and uncertainty caused by the Coronavirus pandemic).

Borrowing Update

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields (the value of this discount is 1% below the rate at which the Council usually borrows from the PWLB), available from 12th March 2020 and £1.15 billion of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The "Future Lending Terms" consultation allowed key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

In the wake of the COVID-19 pandemic, the consultation deadline was extended and closed on 31st July 2020. There is no official timetable as to when the results will be announced, or new lending terms implemented. However, Arlingclose – the Council's Treasury Management advisors – understands that, although most stakeholders would like the new system to start as soon as is practical, the potential complexities relating to the requirements for HM Treasury to implement a system of collating and categorising details of capital projects across UK local authorities could take several months to develop. Consequently, it may be late Autumn 2020 before any findings are released, with implementation of the new policy perhaps not taking place until April 2021.

Borrowing Strategy

At 31st March 2020 the Council held £224.5 million in loans (an increase of £29.0 million compared to the position as at 31st March 2019), as part of its strategy for funding the Capital Programme. Outstanding loans on 31st March 2020 are summarised in Table 3 below.

Table 3: Borrowing Position

	31/03/19 Balance £m	Net Movement £m	31/03/20 Balance £m	31/03/20 Weighted Average Rate %	31/03/20 Weighted Average Maturity (years)
Public Works Loan Board	185.5	+25.0	210.5	2.94%	24.03
Banks	0	0	0	N/A	N/A
Local authorities (long-term)	0	0	0	N/A	N/A
Local authorities (short-term)	0	0	0	N/A	N/A
	0	+14.0	14.0	2.0%	0.08
Total Borrowing	**185.5**	**29.0**	**224.5**		

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

With short-term interest rates remaining much lower than long-term rates, the Council considered it more cost effective in the short term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in Table 3 above.

Other Debt Activity

The Council did not raise any other capital finance in 2019/20, with the balance outstanding on Finance Leases of £1.163 million (in respect of Biffa refuse vehicles) on 1st April 2019 repaid in full during the year.

Treasury Investment Activity

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held, and money borrowed in advance of need. During 2019/20, the Council's investment balances ranged between circa £2 million and £32 million; this was due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Position

	31/03/19 Balance £m	Net Movement £m	31/03/20 Balance £m	31/03/20 Income Return %	31/03/20 Weighted Average Maturity Days
Banks & building societies (unsecured)	0.6	+21.5	22.1	0.01	Instant Access
Government (incl. local authorities)	8.0	-8.0	0	N/A	N/A
Money Market Funds	8.0	-8.0	0	N/A	N/A
Total Investments	**16.6**	**5.5**	**22.1**		

Both the CIPFA Code and Government guidance requires local authorities to invest funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Money Market Fund investments of £6.0 million were redeemed at year-end to supplement temporary borrowing from local authorities of £24.0 million (including £10.0 million in early April 2020); this resulted in a reduction in net borrowing costs.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government (MHCLG), in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Council also holds a significant commercial property portfolio on its Balance Sheet, which are summarised in Table 5 below.

Table 5: Commercial Property Investments

Category	31/03/19 Balance Sheet Value	Acquisitions/ Enhancements	Valuation (+Gains/-Losses)	31/03/20 Balance Sheet Value	Return on Value (+Gain/-Loss)	Net Income 2019/20
Shops*	£81.133m	+£19.898m	-£6.266m	£94.765m	-6.2%	£4.582m
Industrial Units	£24.547m	+£5.344m	+£2.120m	£32.011m	+7.1%	£1.333m
Other**	£11.331m	0	-£0.081m	£11.250m	-0.7%	£0.301m
Total Debt	**£117.011m**	**£25.242m**	**-£4.227m**	**£138.026m**	**-3.0%**	**£6.216m**

*Includes Public Houses and a Petrol Station
**Includes North Weald Airfield and Tennis Centre

The most significant item to note is the Revaluation Loss on Shops with the most significant item being Epping Forest Shopping Park, whereby a downward valuation of £5.1 million (down from £43.1 million to £38.0 million) was experienced due to prevailing market conditions. It should be noted that the impact of Covid-19 on valuations will be reflected in the figures for 2020/21.

Compliance

The Strategic Director and Section 151 Officer reports that all Treasury Management activities undertaken during the year complied fully with the CIPFA Code of Practice. However, regarding the approved Treasury Management Strategy 2019/20:

- *Debt Limits* – full compliance achieved; and

- *Investment Limits* – the £3.0 million limit on investing in any single organisation (except for the UK Government) was breached during the year, with the Council holding larger amounts of cash with NatWest, the Council's main bankers. This was primarily driven by commercial investment activity, which was approved by Cabinet during 2019/20 (and subsequent to the adoption of the Treasury Management Strategy for the year). The peak cash holding was £26.0 million in mid-December 2019; this was a temporary position (lasting 6 days) as the Council gathered the funds in readiness for a balancing payment of £18.645 million in respect of the purchase of Centric Parade, High Road, Loughton.

The increasing scale of commercial activity generally, including the Qualis initiative, means that the current Investment Limits are proving operationally very difficult (and technically impossible during the early stages of the pandemic as the Council received large sums from the Government at very short notice). A review of the Limits has therefore been undertaken and a solution (that balances risk with operational need) has been developed. The starting point is the level of available Balance Sheet reserves in the event of a default. The Council had £27.341 million in reserves on its (draft) Balance Sheet as at 31st March 2020 to cover unexpected credit losses in an emergency.

Table 6: Reserves Available to Cover Credit Losses (@ 31/03/20)

Description	31/03/20 Balance
General Fund Reserve	£7.759m
Earmarked Reserves	£19.582
Reserves available to cover Credit Losses	**£27.341m***

*Excludes ring-fenced reserves such as Capital Receipts and HRA

Based on discussions with Arlingclose, a reasonable level of risk to carry in a single institution would be 15% (based on current market conditions). A revised Investment Limit for a single institution is therefore suggested at £4.0 million (rounded down for prudence).

In addition, it is the view of Arlingclose that the Council's current Investment Limit of £10 million in total for Money Market Funds (MMF) is now – in the circumstances – excessively prudent, with a £10 million limit more usually associated with a single MMF; these are not considered risky investments (and usually carry very high credit ratings), provided investments are spread across a range of MMFs. It is therefore proposed that the MMF Investment Limit be amended to £10 million *for a single MMF.*

Compliance with the Operational Boundary and Authorised Limit for external debt is demonstrated in Table 7 below.

Table 7: Debt Limits

	2019/20 Maximum	**31/03/20 Actual**	**2019/20 Operational Boundary**	**2019/20 Authorised Limit**	**Complied? (Yes/No)**
Borrowing	£210.5m	£210.5m	**£260.0 million**	**£270.0 million**	**Yes**
Finance Leases	£1.2	0			
Total Debt	**£211.7m**	**£210.5m**			

Since the Operational Boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt did not breach Operational Boundary during the year.

Table 8: Investment Limits

	2019/20 Maximum	31.3.20 Actual	2019/20 Limit	Complied? (Yes/No)
Any single organisation, except the UK Government	£26.0m	£22.1m	£3.0m each	No
UK Government (including local authorities)	£8.0m	0	Unlimited	Yes
Any group of organisations under the same ownership	0	0	£3.0m per group	Yes
Any group of pooled funds under the same management	0	0	£5.0m per manager	Yes
Negotiable instruments held in a broker's nominee account	0	0	£2.0m per broker	Yes
Foreign countries	0	0	£3.0m per country	Yes
Registered providers and registered social landlords	0	0	£3.0m in total	Yes
Unsecured investments with building societies	0	0	£2.0m in total	Yes
Loans to unrated corporates	0	0	£2.0m in total	Yes
Money Market Funds	£8.0m	0	£10.0m in total	Yes
Real Estate Investment Trusts	0	0	£5.0m in total	Yes

Treasury Management Indicators

The Council measures and manages its exposures to Treasury Management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31/03/20 Actual	2019/20 Target	Complied?
Portfolio average credit rating	A	A-	Yes

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31/03/20 Actual	2019/20 Target	Complied?
Total cash available within 3 months	£22.1 million	£3.0 million	Yes

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	31/03/20 Actual	2019/20 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates (Borrowing)	£318,000	£318,000	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates (Investments)	£210,000	£100,000	No

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The table shows that Interest Rate Exposure on Investments breached the limit in 2019/20; this was due to the higher than originally planned level of cash balances carried during the year (explained above, in the context of Investment Limits). However, Interest Rate Exposure on Borrowing remained within its limit; this is important for the Council, with net variable rate exposure of £108,000 (£318,000 minus £210,000) focused on Borrowing.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31/03/20 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	22%	100%	0%	Yes
12 months and within 24 months	0%	100%	0%	Yes
24 months and within 5 years	0%	100%	0%	Yes
5 years and within 10 years	0%	100%	0%	Yes
10 years and within 15 years	0%	100%	0%	Yes
15 years and within 20 years	43%	100%	0%	Yes
20 years and within 25 years	30%	100%	0%	Yes
25 years and above	5%	100%	0%	Yes

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£0	N/A	N/A
Limit on principal invested beyond year end	£3.0 million	£1.0 million	£0
Complied?	Yes	N/A	N/A

Other

IFRS 16: CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22.

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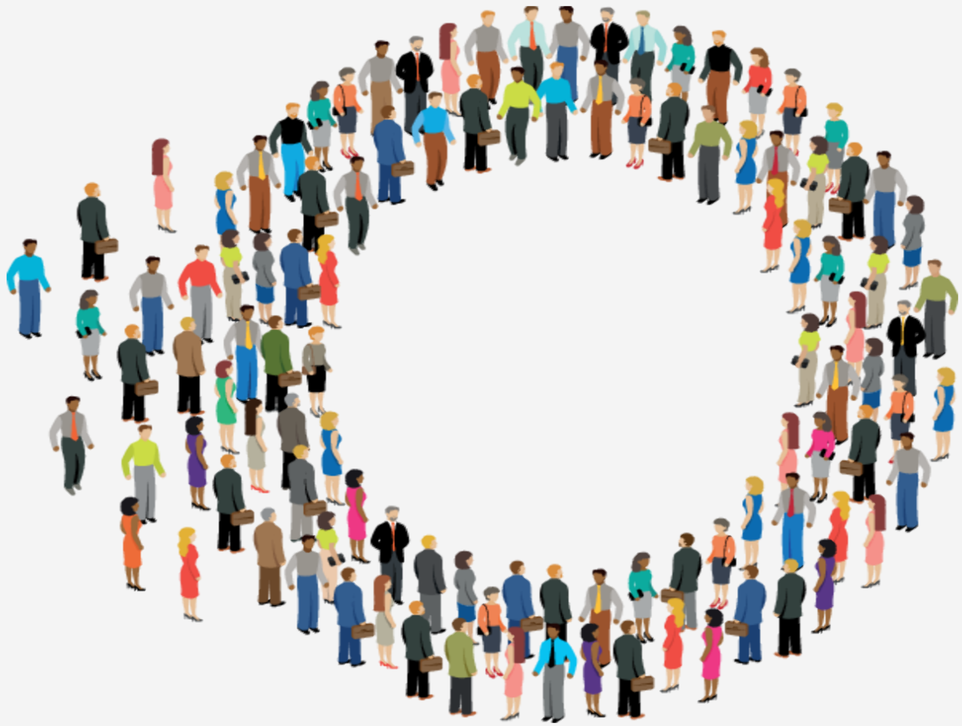
Epping Forest District Council



Epping Forest District Council

Audit planning report to the Audit and Governance Committee for the year ended 31 March 2020

Issued 23 September 2020 for the meeting on 28 September 2020

Deloitte Confidential: Public Sector

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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 statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

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I have pleasure in presenting our planning report to the Audit & Governance for the 2020 audit. I would like to draw your attention to the key messages of this paper:

Scope of our work	Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. The Code sets the overall scope of the audit which includes an audit of the accounts of the Council and work to satisfy ourselves that the Council has made proper arrangements to secure value for money (VFM) in its use of resources. There have not been any changes to the Code, itself, and therefore the scope of our work is broadly similar to the scope of work set for your auditor in the prior year. Our responsibilities as auditor, and the responsibilities of the Council, are set out in *"PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies",* published by Public Sector Audit Appointments Limited.
Areas of focus in our work on the accounts	We summarise below the areas of significant audit risk we have so far identified: • Valuation of properties – Fixed assets 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. Auditing standards also presume there is a risk of fraud in revenue recognition. Following an analysis of the Council's income streams, we have rebutted this presumption similarly to the previous year. The key factors considered include: the amount of annual income from each source; the transaction size; the extent of any estimates; and the complexity of the recognition principles.

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 statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

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Areas of focus in our work on VFM	The Code and supporting auditor guidance note require us to perform a risk assessment and to carry out further work where we identify a significant risk. Our risk assessment to determine whether there are any further significant risks is ongoing, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from the work of regulators.
Covid-19	The global Coronavirus (Covid 19) pandemic has had a significant impact on audits across all sectors. We have summarised this on pages 15 and 16. As the full impact continues to develop we will keep this under review but we will be performing additional procedures on a range of areas.
Follow-up on prior year recommendations	During the course of our previous year's audit we identified a number of internal control findings which we will follow up on in the current year's audit.

Craig Wisdom
Lead audit partner

Our audit of the statement of accounts explained

We tailor our audit to your Authority

Identify changes in your business and environment

The Council continues to invest in capital projects such as capital repair and house building schemes across the District.

The Government imposed a national lockdown from 23rd March 2020 in response to the COVID 19 pandemic, the impact of which will continue to be felt into the 2021 financial year.

Scoping

Our work will be carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

More detail is given on the following page.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.

Determine materiality

We have determined materiality to be £2,030k (2019: £2,000k), representing 2% of estimated gross spend on services.

Significant risk assessment

We have identified significant audit risks based on our knowledge of the Council and its operations. More detail is given on pages 10 to 12.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Epping Forest District Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach

We have the following areas of responsibility under the Code of Audit Practice

Opinion on the Council’s 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) (“ISA (UK)”) as adopted by the UK Auditing Practices Board (“APB”).

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting (“the Code”).

Opinion on other matters

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

Value for Money conclusion

We are required to provide a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We carry out a risk assessment to identify any risks that, in our judgement, have the potential to cause us to reach an inappropriate conclusion on the audited body’s arrangements. The risk assessment enables us to determine the nature and extent of further work that may be required. This means that if we do not identify any significant risks, there is no requirement to carry out further work.

We also consider the impact of findings of other inspectorates, review agencies and other relevant bodies on their risk assessment, where they are relevant and available.

Whole Government Accounts

We are required to issue a separate assurance report on the Council’s separate return required to facilitate the preparation of the Whole of Government Accounts.

Our work on the return is carried out in accordance with instructions issued by the NAO and typically focuses on testing the consistency of the return with the Council’s financial statements, together with the validity, accuracy and completeness of additional information about the Council’s transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in “PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies”, published by PSAA

Scope of work and approach (Continued)

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 have attended Audit & Governances and we have been sighted on the progress Internal Audit. We will review their reports issued as part of the 2019/20 internal audit programme. We consider the findings from their work and where significant control weaknesses are identified, we consider the impact on the scope of our own work.

Approach to controls testing

For controls considered to be 'relevant to the audit', our work involves evaluating the design of these controls and determining whether they have been implemented ("D & I").

We do not expect to place reliance on the operating effectiveness of controls in the current year.

Materiality

The audit partner has determined materiality as £2,030k (£2,000k), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.

We have used 2% of gross spend on services as the benchmark for determining materiality as this is an area of focus for users of the accounts.

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. It should be noted that the 2018/19 audit continued into 2020 and was signed off on 18 June 2020.

Pre-planning	Planning fieldwork	Year end fieldwork	Other reporting	Post reporting activities
• Agreement of overall scope of the audit • Agreement of audit fees and supporting assumptions	• Understand the Council's accounting and business processes • Perform risk assessment procedures for financial statements and VFM • Respond to VFM significant risks	• Publishing draft annual report by first working day of September • Year-end audit field work • Update VFM risk assessment • Year-end closing meetings • Reporting of significant findings from the audit • Signing audit report	• Annual audit letter	• Debrief session with the finance team • Reporting of other control deficiencies
Annual fee letter	Planning report to the Audit & Governance	Final report to the Audit & Governance	Annual audit letter	Any additional reporting as required
April 2019 – Jan 2020	Aug - Sept 2020	Sept - Oct 2020	November 2020	November 2020

Ongoing communication and feedback

Significant risks – statement of accounts

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 annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Deloitte view

IAS 1 requires entities to make disclosures about the assumptions it has made about the future and other major sources of estimation uncertainty at the year end that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

If a matter does not meet this criterion, it should not be included in the disclosure on sources of estimation uncertainty.

We recommend the Council re-look at whether the estimates it disclosed in the prior year meet this criterion.

The Code of Practice on Local Government Accounting requires the statement of accounts to include a narrative report which provides information on the authority, its main objectives and strategies and the principal risks that it faces.

IAS 1 Critical accounting estimates

- Useful economic lives of property, plant and equipment
- NNDR appeals provision
- Pension liability valuation
- Bad debt provision

Prior year significant audit risks (financial statements)

- Valuation of properties
- Capitalisation of expenditure
- Management override of controls

Principal risk and uncertainties

- The Council does not have an adopted Local Plan.
- Welfare reform changes have a detrimental effect on the Council and the community
- Failure to achieve strong economic development
- Business Continuity - Inability to function should a significant event occur
- Delays in issuing Planning Permission for development due to the impact on air quality in Epping Forest Special Area of Conservation
- The Councils on-going response to COVID-19 as well as its recovery.

Changes in your business and environment

- The Council continues to invest in capital projects such as capital repair and house building schemes across the District.
- The Government imposed a national lockdown from 23rd March 2020 in response to the COVID 19 pandemic, the impact of which will continue to be felt into the 2021 financial year.

Significant risks
Risk 1 – Property Valuation – Fixed assets and investment properties

Risk identified

The Council holds Council Dwellings & Garages of £688m (2019: £681m), other land & buildings of £65m (2019: £55m) and investment properties of £138m (2019: £117m) at 31 March 2020 which are required to be recorded at current or fair value at the balance sheet date, the significant risk identified therefore applies to these classes of assets.

Valuation of property assets and investment property is an area of audit focus due to the inherent degree of complexity, estimation and potential variability in the valuation methodologies that can be applied.

In the current year there is increased uncertainty over the valuations due to Covid 19 and the Councils valuers have included a material uncertainty clause in the valuation that has been provided.

Our response

- 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.
- We will consider the impact of uncertainties relating to the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.
- We will consider the impact of Covid 19 on asset valuations including the material uncertainty included by the Councils valuer.
- It should be noted that it is likely that we will include an "Emphasis of Matter" paragraph in the audit opinion which will draw attention to this uncertainty. This is not a qualification or modification of the audit opinion.

Significant risks (continued)
Risk 2 – Capital Expenditure

Risk identified	The Council has a substantial capital programme, and had budgeted £13.0m for capital works during 2019/20 (2018/19: £17.0m). Key projects include capital repair and house building schemes, as well as the new Hillhouse Leisure centre and redevelopment of the existing Epping and Loughton Leisure centres. 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	• 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 (continued)

Risk 3 - Management override of controls

Risk identified	In accordance with ISA 240 (UK and Ireland) management override of controls is a presumed significant risk. 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 Authority's controls for specific transactions. The key judgments in the financial statements are those which we have selected as areas of audit focus; valuation of the Authority's properties and pension liability. 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 risk assess journals and select items for detailed follow up testing. We do this by using computer-assisted profiling to identify journals which have characteristics of increased interest. We will then test the appropriateness of journal entries selected through this profiling activity, and other adjustments made in the preparation of financial reporting. • We will review accounting estimates for evidence of bias that could, in aggregate, result in material misstatements due to fraud. Other areas of estimation in addition to the above include provisions (of which the most significant is the provision for NNDR appeals), bad debt provisions and estimation of depreciation based on a selection of useful economic lives. • 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 entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Other areas of audit focus

Pension liability (LGPS)

	Pension Assets	Pension liabilities	Net pension deficit
2019/20	£153.6m	£217.3m	£63.7m
2018/19	£162.4m	£232.3m	£69.9m

Risk description

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

As at 31 March 2020, the Council had a £63.7m 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 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.

Further risk assessment procedures and planned response

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 utilise our Pension Asset Centre of Excellence to ensure that assets are tested in a standardised way which meets the expectations of our regulators.

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.

As part of our audit work we will liaise with BDO as the external pension scheme auditor of ECC.

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

We will consider the impact of Covid 19 on pension asset valuations.

Value for money

Our risk assessment process and significant risks

We are required to provide a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code and supporting auditor guidance note 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 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 procedures include:

- Reading the annual governance statement
- Considering local and sector developments and how they impact on the Council
- Meeting with senior officers
- Reviewing reports issued by internal audit
- Reviewing other documentation of the Council including budget setting reports, financial and operational performance monitoring reports
- Reviewing reports issued by regulators.

Our risk assessment to determine whether there are any further significant risks is ongoing, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from the work of regulators.

We have not identified any significant risk from our work to date.

Coronavirus (COVID-19) outbreak
How is Deloitte responding?

Deloitte has been closely monitoring and managing our response to the COVID-19 situation since its inception in order to be able to respond as necessary. The health and safety of our people is paramount, but we are doing our utmost to ensure we can complete audits to required timetables. We summarise below how we are responding.

Impact on our audit and our response

We have Business Continuity Plan ('BCP') arrangements which align to ISO 22301. Our BCP for the firm has been enacted to consider and mitigate the impact of COVID-19 across our operations. The health and safety of our people and those we work with comes first. This includes the provision of advice and support to staff and associates, development of response plans, and upgrades to our IT infrastructure to increase capacity for secure remote working.

We have the capability to work remotely with our audited entities, utilising a number of collaboration tools, including Deloitte Connect (a tool that facilitates secure two-way dialogue between the Deloitte team and management to effectively manage engagement co-ordination) and MS Teams allowing us to collaborate and supervise activities.

We have been working remotely for several months and successfully delivered a number of audit engagements during this time including some public sector engagements.

We have adequate server capacity for all our people to work remotely. A key element of our contingency planning strategy has been to advise all our people to take their laptops home with them each evening and over weekends so they are able to work from home as the need arises.

We are in regular contact with regulators as well as other Deloitte Member Firms to co-ordinate and understand the impact locally so we can execute global audits.

Internally, we have travel restrictions in place and we have implemented meeting and congregation protocols to try to minimise contagion. We are also reviewing team compositions to try to minimise the risk of full teams being disrupted.

Coronavirus (COVID-19) outbreak

How is Deloitte responding? (continued)

Impact on Epping Forest District Council's statement of accounts

The impact of the outbreak on the annual report and financial statements including:

- Principal risk disclosures
- Narrative report to include COVID 19 section
- Property valuation material uncertainty
- Subsequent events due to fast changing environment.
- Changes to the requirement and nature of Council's financial planning.

Impact on our audit

Impact on the audit including:

- Resource planning to adapt to the extended audit timeline.
- Logistics regarding travel and meetings with Council personnel will be resolved through the use of Sharepoint and Teams meetings.
- Potential changes to our significant risk areas and adapting our audit approach in a number of non significant risk areas due to changes in our risk assessment.
- Emphasis of matter paragraph on the material uncertainty around valuations will be included in our audit report.

Following our interim audit visit, we revisited our risk assessment and the related audit procedures. The key areas we considered were:

- Areas where the control environment may have altered, for example with more staff working remotely;
- Fraud risks more generally as there is an increased opportunity and incentive to commit fraud due to the current situation;
- Valuation of council assets including the material uncertainty included by the Councils valuer;
- Valuation of Pension assets which has a 31 March 2020 year end when the market was particularly volatile; and
- Whether there is the potential for increased levels of irrecoverable debt.

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 audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our audit plan, including key audit judgements and the planned scope.

Use of this report

This report has been prepared for the Audit & Governance, 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.

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 officers 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 statement of accounts 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.

Deloitte LLP

Deloitte LLP

St Albans | 23 September 2020

Appendix 1 - Fraud responsibilities and representations

Responsibilities explained

Your 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.

Our responsibilities:

- We are required to obtain representations from your officers 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 statement of accounts 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 valuation of land and buildings, capital expenditure and management override of controls as key audit risks for your organisation.

Fraud Characteristics:

- Misstatements in the statement of accounts 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 statement of accounts 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:

- 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 statement of accounts 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) officers;
  (ii) officers who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the statement of accounts.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's statement of accounts communicated by officers, former officers, analysts, regulators or others.

Appendix 1 - Fraud responsibilities and representations
Inquiries

We will make the following inquiries regarding fraud:

Officers:

- Officers assessment of the risk that the statement of accounts may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Officers process for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether officers have knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve officers 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 officers processes for identifying and responding to the risks of fraud in the entity and the internal control that officers have 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.

Appendix 2 - Independence and fees
Independence

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 for the year ending 31 March 2020 in our final report to the Audit & Governance.
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 Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Appendix 2 - Fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2019 to 31 March 2020 are as follows:

	£
Financial statement audit under the NAO's Code of Audit Practice [1]*	49,797
Additional fee for change of scope due to COVID-19 [1]*	TBC
Total audit fees	**49,797**

[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. In addition, we expect to incur additional costs due to changes in the scope of the audit due to the impact of the Covid 19 pandemic. We are currently discussing with the Authority the current level of fee.

* All additional fees are subject to agreement with PSAA.

Deloitte.