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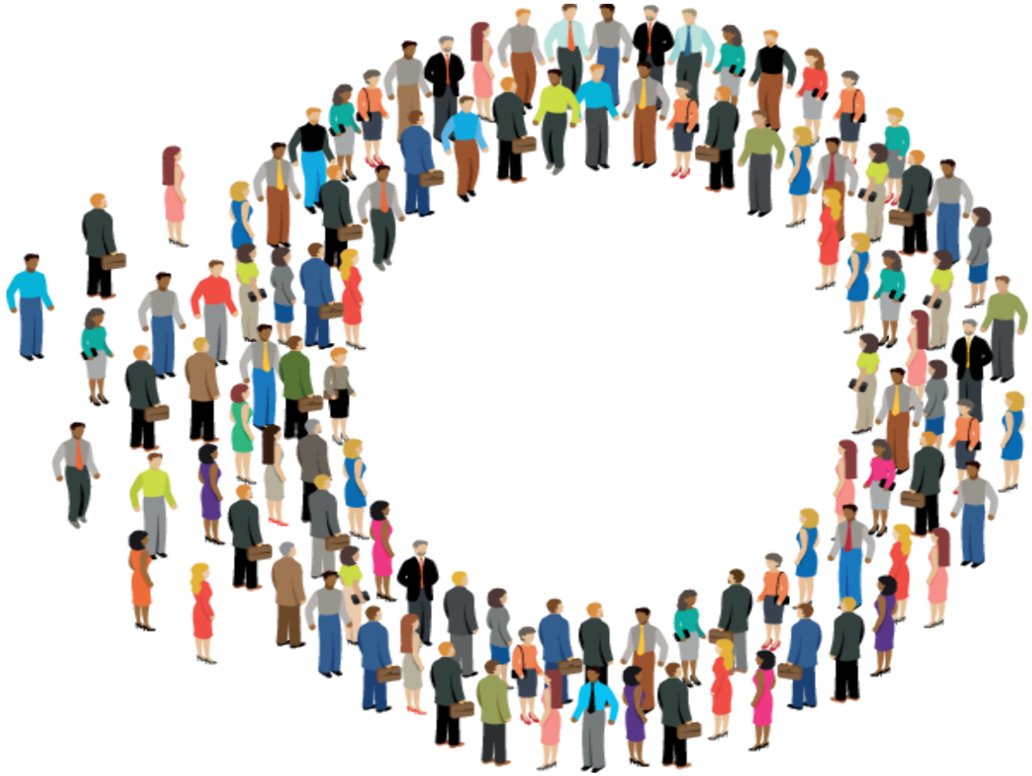
Epping Forest District Council



Epping Forest District Council

Report to the Audit and Governance Committee on the audit for the year ended 31 March 2020

Issued on 07 July 2021 for the meeting on 15 July 2021

Contents

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.

I have pleasure in presenting our update report to the Audit and Governance Committee of Epping Forest District Council (the Council) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the committee on 28th September 2020.

Status of the audit

Our audit is substantially complete and at the date of issue of this report with the following key matters still outstanding:

- Receipt and full review and tie through of final, updated financial statements;
- Completion of a limited number of normal risk procedures;
- Completion of our internal quality control processes;
- Completion of subsequent events review; and
- Receipt of a signed representation letter.

We acknowledge that there have been long delays in completing the audit. This has been caused by unanticipated complexities in executing the audit process, including resolution by the Council of technical challenges from us as well as the impact of Covid-19 and remote working which has caused delays on both sides. In summary:

- Whilst management preparation was significantly better than in the previous year and there was a marked improvement in the quality of supporting audit work papers, this was not consistent in all areas and we were not able to complete the audit in line with the agreed plan.
- Due to the impact of Covid-19 on Deloitte staff we were not able to provide additional resource to complete the audit until November which meant we could not complete in time for the deadline.
- Due to a material error found in the testing performed in November additional work was required by management to understand and resolve the issue. As a result of pressures on the Epping team due to budgeting processes the resolution of the issues was delayed until March.
- Due the departure of the Deloitte manager overseeing the Epping audit and resource constraints due to the team having to complete NHS audits we concluded testing in June.

Introduction

The key messages in this report (continued)

Conclusions from our testing	• We have included a section in this report providing observations arising from the work we have carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report. • We have summarised our audit adjustments on page 28 to 29. • Based on the current status of our work we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement. • We have considered the impact of the Covid-19 pandemic on our work and include details on pages 6 to 8 of this report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic. • As detailed in our work on the valuations set out on page 10, management's expert, Carter Jonas, included a material uncertainty clause in their valuation report. This is common to 31 March 2020 valuations in the sector. This wording is reflected in the financial statements and we draw attention to it in our draft auditor's report. Note that this is not a qualification of our opinion. • We have identified findings or internal control deficiencies which have been included from page 18. We note that there has been a substantial improvement in the preparation of the financial statements and the related processes despite the disruptions caused by the pandemic. However the improvements that management are implementing are still ongoing.
Value for Money	• Our work on Value for Money is complete. We have not identified any significant risk in this area and we do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • At the date of this report, we have no significant matters to raise with you in respect of the Narrative Report which has been updated for our proposed adjustments to ensure appropriately detail in relation to Covid-19 has been included. We also have no significant matters in respect of the Annual Governance Statement.
Duties as public auditor	• At the date of this report we had not received any formal queries or objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• The Council continues to be below the threshold for WGA reporting.

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment → Determine materiality → Scoping → Significant risk assessment → Conclude on significant risk areas → Other findings → Our audit report

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

These were major capital projects and the impact of Covid-19 on the Council.

Determine materiality

When planning our audit we set our materiality for the Council audit at £2,030k (2018/19: £2,000k) based on 2% of estimated gross spend on services. Materiality has not changed since our planning report.

Scoping

Covid-19 consequences have impacted our work. Details are included on pages 6 -8. There have been no other changes to the scope of our work as set out in the audit plan which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement.

We report our findings and conclusions on these risks in this report. No additional risks have been identified since our Audit Plan.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks. The Committee members must satisfy themselves that management's judgements are appropriate.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out from page 18 of this report.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report and unmodified value for money conclusion.

We expect to include an "emphasis of matter" paragraph in relation to material uncertainties around the property valuation.

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Covid-19 pandemic and its impact on our audit.

Requirements	CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 2019/20 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. 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. 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.
Actions	A thorough assessment of the current and potential future effects of the Covid-19 pandemic is required including: • 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); • Any material uncertainties relating to the council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; 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	Impact on annual report and financial statements	Impact on our audit
We have considered 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.	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 • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses	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.

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	Potential Impact on annual report and financial statements	Audit response
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and has required specific disclosure in the financial statements. Consequently, this has resulted in an Emphasis of Matter in our audit report.	The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020. The material uncertainty is disclosed in the Statement of Accounts and leads to an Emphasis of Matter in our audit opinion.
Valuation of commercial or investment properties	Following the Covid-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needed to be reviewed against the conditions and assumptions at the measurement date. This presents some difficulties because of the volatility of the market at the measurement date and the potential for there to be a lack of reliable observable inputs. This required additional consideration in our work on year-end valuations.	The material uncertainty noted above also includes Investment Properties.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility.	We engaged early with the Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. We have finalised our work in this area and have identified an unadjusted difference relating to the outcome of the Goodwin case. Further details can be found on page 29 of this report.
Expected credit losses	The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	No issues in relation to this have arisen from our audit work.

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	Potential Impact on annual report and financial statements	Audit response
Covid related income received pre year end	• There was 1 main receipt of income related to Covid-19 that was received pre 31 March 2020 • **Covid-19 LA Support grant.** This was the first tranche of £1.6bn allocated to Councils by MCHLG on March 27 2020. The Council received £58.7k before financial year end with further amounts having been received post year end. This grant was not ring fenced and without conditions and therefore should be recognised in income with any unspent amounts carried in reserves.	• We note that after discussion and reference to guidance these have been treated correctly in the updated Statement of Accounts. • The remaining Covid-19 related income receipts received after the year end will be considered as part of the 2020/21 audit.
Narrative and other reporting issues	The following areas need to be considered by local authorities as having being impacted on by the Covid-19 pandemic. • 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	We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.

Significant risks

Risk 1 – Property Valuation – Fixed assets and investment properties

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

Key judgements and our challenge of them

The Council holds Council Dwellings & Garages, other land & buildings and investment properties 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.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation.
- We used 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 considered 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 considered the impact of Covid-19 on asset valuations including the material uncertainty included by the Councils valuer.
- It should be noted 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 1 - Property Valuation – Material Uncertainty due to Covid-19

Material Uncertainty due to Covid-19

The Council's valuer has included disclosures in relation to Covid-19 in their report as detailed below:

"The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of under frequent review."

This is a common feature of valuation reports prepared to 31 March 2020

Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. At the date of this report this has not yet been included in the Statement of Accounts but is expected to read as follows:

The valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, as outlined by the valuation report, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

Given the unknown future impact that COVID-19 might have on the real estate market, it has been recommended that the valuation is kept under frequent review. The valuation amounts disclosed within the accounts have been based on the best information available and are therefore a valid basis of valuation for this Statement of Accounts.

Impact on Audit Opinion

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure:

"*We draw attention to note X, which describes the effects of the uncertainties created by the coronavirus (Covid-19) pandemic on the valuation of the Council's property portfolio.*

As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter."

Deloitte view

In response to the challenge raised by Deloitte, management had amended the scope of the valuation exercise to consider the period between 28 February 2020 to 31 March 2020. Based on the revised valuers report, we concluded our work satisfactorily.

Significant risks (continued)

Risk 2 - Capital expenditure

Risk identified

The council has continued with a programme of capital expenditure in 2018/19, with £18.4m (PY: £26m) of expenditure recorded in the year. This includes key projects such as the Hill House Leisure Centre (£5.1m) and the Burton Road House build (£4.2m).

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

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

Deloitte view

Our work in this area has been completed satisfactorily with no issues noted.

Deloitte response

- We tested the design and implementation of controls around the capitalisation of costs.
- We selected a sample of capital items 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.

Deloitte response

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

- The Council's results throughout the year did project both positive and negative divergences from budgets in operational areas. This was closely monitored and whilst some areas projected overspends, the underlying reasons were understood.
- Senior management's remuneration is not tied to particular financial results.

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

Significant and unusual transactions

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

Journals

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

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

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate and the valuation of the pension liability, as discussed elsewhere in this report. As work in some of these areas are still on-going we are yet to conclude in this area.

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

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

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

Other matters

Defined benefits pension scheme

Background

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

The Council's net pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. The 31 March 2020 position as currently calculated, including the impact of McCloud, is stated as a £63.6m, decreasing from its £69.9m opening position as at 1 April 2019.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). While an additional liability has not been included in the actuarial report from Barnet Waddingham our pensions specialist team have concluded that this judgement would not result in a material movement in the year end liability. We have discussed this adjustment with officers and it has been summarised on our schedule of unadjusted differences on page 29 of this report.

Deloitte response

We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed in the disclosures to notes in the accounts.

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by the actuary, including benchmarking as shown the table opposite.
- We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.35%	2.15% - 2.60%	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.90%	N/A	Reasonable, slightly optimistic
Salary increase (% p.a.) (over CPI inflation)	2.90%	Council specific	Reasonable
Pension increase in payment (% p.a.)	1.90%	1.70%	Reasonable
Pension increase in deferment (% p.a.)	1.90%	1.70%	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.80	21.80	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.20	23.20	Reasonable

Deloitte view

Our work in relation to to pension liabilities and assets is complete and except for the unadjusted difference identified relating to the Goodwin case we have concluded satisfactorily.

Other matters

NNDR Appeals Provision

Background

During the audit of the NNDR Appeals provision we challenged management on the recorded value included within the provisions balance. Following investigation, officers identified a material mis-posted journal.

Deloitte view

The incorrect £2.4m error was reversed in full following the investigation and has been corrected in the accounts.

We also noted that following this correction, officers re reviewed reserves balances and a number of adjustments have been proposed which are due to be approved alongside the final accounts.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

Background

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

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work. We note that the NAO guidance indicates a low likelihood that Covid-19 forms a risk area impacting the assessment of arrangements for 2019/20. Rather this will form part of the risk assessment and evaluation for 2020/21. The response to Covid-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the 2019/20 financial year.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report including discussion with relevant officers and review of Council documentation including internal audit reports. We did not identify any further significant risks from our remaining risk assessment procedures.

Deloitte view

Based on the current status of our audit work, we envisage issuing an unqualified "value for money conclusion".

The expected form of our conclusion is as follows:
On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2020 we are satisfied that, in all significant respects, Epping Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Our opinion on the financial statements is unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

We include details on the other matter paragraph in relation to property valuations on page 10 of this report.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Our conclusion on the Council's arrangements is unmodified.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Our conclusion in this area is satisfactory.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; - Basis of preparation; and - Future sustainability and risks to this posed by Covid-19.	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We note that the Narrative Report was updated for the implications of Covid-19. We have fed back points from our reviews to officers.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

Control observations – Current period audit

We note that there has been a substantial improvement in the preparation of the financial statements and the related processes despite the disruptions caused by the pandemic. However the improvement plan that management are implementing is still ongoing.

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

Area	Observation
Disposal of property, plant and equipment (PPE)	The councils PPE disposal authorisation process involves obtaining approval from Cabinet without any formal requirement to involve officers within the finance team. This poses a risk that assets may be disposed of with the finance team not being alerted to this and therefore not making the formal disposal from the fixed asset system (and subsequently the Statement of Accounts). We recommend that management involve a finance team member in the disposal authorisation process, this will ensure that finance are notified of these on a timely basis. Management comment: The recommendation is supported. There are firm plans to review and update Financial Regulations in 2021/22. As part of this process, asset disposal procedures will be strengthened with a view ensuring that good practice standards in governance, accounting and value-for-money are achieved.
Publication of 'notice of delay' for FY19/20 statement of accounts	Where Councils are not able to meet the statutory submission deadline, this triggers the requirement to issue a 'notice of delay' however this was not completed by the Council within the required timeframe. The notice was published in April 2021 following challenge from a member of the public. Management comment: The Accounts and Audit (Coronavirus) Amendments Regulations 2020 extended the statutory accounting deadlines for 2019/20 for all local authorities. The Council's draft (unaudited) Statement of Accounts were published on the website on 21st August 2020 in accordance with the statutory deadline of 31st August 2020. In addition, the Council also complied with its responsibility to publicise its Public Inspection arrangements and the extended publication date for audited Accounts of 30th November 2020. However, due to an administrative oversight, the subsequent delay in meeting the 30th November 2020 deadline for the publication of the audited Accounts, was not advertised in accordance with the legislation; a Notice of Delay was subsequently issued by officers in April 2021.

Control observations – Prior period audit

During the course of prior period audit we identified internal control findings which we have summarised below for information along with an update based on our 2019/20 audit.

Area	Observation
Quality of draft financial statements	The initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard. Issues noted included: • Findings regarding the compliance of the narrative report, financial statements and annual governance statement with the CIPFA code; • Inconsistencies between notes in the financial statements; • Accounting policies not updated for the adoption of IFRS 9 and IFRS 15; • Accounts disclosures not updated for the adoption of IFRS 9; • Accounts disclosures not updated for the adoption of IFRS 15; • Differences between primary statements and notes; and • Differences noted during our call and cast process • Numerous differences noted between the financial statements and supporting working papers and/or an absence of suitable supporting working papers • A lack of knowledge about key balances due to a significant loss of corporate knowledge following the departure of a number of members of the finance team which was exacerbated by a lack of documented processes. Together these indicate weaknesses in the financial reporting and close process. We recommend the Council reviews the year-end reporting and close process, including: • Documented year end timetable that includes detailed guidance on processes and controls • preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council; • documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts; • review of the completed CIPFA disclosure checklist; • documented and reviewed internal checks of internal consistency; • completion of the CIPFA “pre-audit checks on draft year-end accounts” checklist; and • documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers. **2019/20 audit comment:** The financial statements presented for audit were of a higher quality compared to the 2018/19 audit. However, we noted that there were still instances relating to the points raised during the PY audit. Management comment: It is generally accepted that the Council prepared a stronger set of draft Financial Statements for 2019/20 compared to 2018/19 and, at the time of preparing this response, further improvements are anticipated in the draft Financial Statements for 2020/21.

Control observations – Prior period audit (continued)

Area	Observation
Preparation of accounting papers	Accounting papers were not prepared to explain and support key judgements and estimates, including the ongoing pertinence of judgements made in previous years, or were not sufficiently detailed to explain and support those judgements and estimates. It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc.), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge is retained in the organisation. We recommend the Council adopts an approach of preparing papers for any key accounting judgements or issues arising. We also recommend that accounting papers are presented to the same meeting of the Committee at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the Committee's approval of the draft statement of accounts. **2019/20 audit comment:** We note that that there have been improvements in the preparation of accounting papers however there were still some instances where we would recommend that accounting papers are prepared. Management response: improvements were achieved in Accounting Papers for 2019/20 and this is still a priority area for further development in 2020/21
Documentation of controls and process	There were significant delays in the completion of the audit process and provision of key information. One of the reasons for these issues has been the significant turnover in the finance team and subsequent loss of corporate knowledge. This has been exacerbated by the processes and routines previously in place not being clearly documented, therefore restricting the level of knowledge and continuity. As it progresses its initiatives to improve the processes around financial control, we recommend the level of documentation is improved to mitigate any future loss of continuity within the finance team. **2019/20 audit comment:** We note that improvements have been made and that this is an ongoing process. Management response: Business continuity was a primary consideration in the development of the new Corporate Finance Team. To this end, Team Leaders have been tasked with preparing detailed Procedure Manuals for their areas of responsibility.

Control observations – Prior period audit (continued)

Area	Observation
Review and approval of workings papers	A number of key working papers and reconciliations provided by management in the first instance were inadequate as they did not reconcile to the trial balance or contain the required level of detail. For example, the profit on disposal amount included in the accounts was misstated by £700k, with the workings provided to corroborate the amount containing a number of incorrect calculations. Whilst we note that in most instances subsequent workings have been provided by management which are correct, we recommend that a process of review and approval of all key working papers is embedded in the year end process to implement an appropriate level of quality control. **2019/20 audit comment:** We note that that there have been improvements, however there were still some instances where issues were noted. Management response: Improvements were achieved in processes for 2019/20 and this is still a priority area for further development in 2020/21
Controls of cash accounts	We have identified a number of bank accounts which are held by the council but are not recorded within the general ledger. Whilst the amounts held within these accounts are not material, there is an increased risk of error in reporting cash if the accounts are not correctly recorded. We recommend that the council undertakes a full review of its banking arrangements and considers closing any which are no longer in use, as well as ensuring all bank accounts are captured within the general ledger. **2019/20 audit comment:** No instances noted during the CY audit.
Maintenance of contact information and mandates with third parties	We have noted through our audit procedures that incorrect information is held with key third parties. For example, the bank mandates have not been updated to reflect turnover in key members of staff, and incorrect contact information is documented with the investment managers. This increases the risk of accounts being accessed by members of staff who have left, or the council being unable execute banking or investment changes without an individual with the required authority. We recommend that a regular review of this information is completed by the council to ensure the relevant changes are implemented on a timely basis. **2019/20 audit comment:** No instances noted during the CY audit.

Control observations – Prior period audit (continued)

Area	Observation
Evidence of 'rents to mortgages' scheme	The council holds charges of £2.1m over properties sold by the council through a historic 'rents to mortgages' scheme. The council has been unable to provide the relevant supporting documentation to corroborate the charges held over the properties, and is therefore unable support the amounts recorded within the financial statements. Once the relevant documentation is provided by the council, we will complete our procedures in regards to this balance. However, we recommend the council reviews its processes for the retention of key legal documents such as this. **2019/20 audit comment:** Whilst we note that that there have been improvements, there were still some instances where issues were noted. Management response: Evidence was supplied in a limited number of cases as part of the 2019/20 audit process. This is proving a challenging area given the age of a lot of the documentation. Further work is being conducted as part of the preparation of the 2020/21 Statement of Accounts.
Disposal processes	Through our testing of disposals we have identified a number of assets which have been disposed of in the year, but not removed from the fixed asset register. We have also identified costs of disposal which have incorrectly been capitalised in the year. Furthermore, we note there is no formal process of review and approval of disposals, or any asset audits completed to ensure the completeness of the disposals listing. We recommend these processes are introduced to improve the controls surrounding asset disposals. **2019/20 audit comment:** No instances noted during the CY audit.
Depreciation policy	The council has an accounting policy to apply a full year of depreciation in the year of disposal and no depreciation in the year of acquisition, primarily for the reason that the fixed asset register is only updated at the end of year. This practice is not uncommon in the sector and does not have a significant impact on the carrying amount of assets where assets are acquired and disposed relatively evenly across the year. Management have prepared a high level calculation to assess the impact of this, which has been reviewed by the audit team. This assessment outlined the total net impact on depreciation as £7k, which is highly trivial. We recommend that management implements a process whereby the depreciation charge is retrospectively calculated based on the actual date of acquisition or disposal. **2019/20 audit comment:** No issues noted during the CY audit. Management response: Accounting policies are kept under review with improvements prioritised based on materiality. Future consideration will be given to the Depreciation Policy

Control observations – Prior period audit (continued)

Area	Observation
Production of debtor & creditors listings	The councils accounting system can only produce debtors & creditors listings on the date they are requested, and is therefore unable to provide retrospective listings. These listings were not produced the March 2019 year end and as a result full listings were not provided. Whilst management have been able to produce an alternative summary, this has been a time consuming task and has resulted in significant delays. We recommend the council ensures the production of these reports are embedded in the year end processes which is not disrupted by a loss of continuity in the finance team. **2019/20 audit comment:** Whilst we note that that there have been significant improvements, there were some issues with the implementation of the improved processes. Management response: Improvements were achieved in processes for 2019/20 and this is still a priority area for further development in 2020/21
Elimination of internal recharges	Internal recharges should be eliminated from the presentation of income and expenditure in the Comprehensive Income and Expenditure Statement. The process of doing this is complicated due to a change in the reporting procedures in 2018/19. £3.6m of expenditure has been identified which was incorrectly recorded within the financial statements. We recommend the council modifies its processes for recording expenditure to ensure all double counting is eliminated. **2019/20 audit comment:** No issues noted during the CY audit.
Retention of signed employee contracts	We have identified that the council does not retain signed employment contracts for a number of employees. We recommend that the council undertakes a review of its employment contracts to ensure a signed copy is in place for all members of staff. **2019/20 audit comment:** There was an issue noted in the CY audit with one unsigned contract identified. Management response: The Council has recently switched to using electronic signatures (through "Docusign") for employment contracts, which has led to an improvement in (signed) document retention procedures.

Control observations – Prior period audit (continued)

Area	Observation
New accounting standards – IFRS 9 and 15	Whilst we understand that officers discussed the impact of adoption of the new standards during the closure process, they did not prepare accounting papers on the transition to IFRS 9 and 15. The initial draft accounts were not updated for changes in disclosure requirements from IFRS 9 and 15. We are yet to receive managements assessment of these standards, which we will then assess to determine if the correct treatment has been applied. We also observe that because the new standards have been discussed as a one off exercise, new requirements will not have been embedded in the Council's underlying systems, processes and controls. This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected. We recommend that the Council reviews how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 and 15, and the process to be followed in assessing new and unusual transactions. **2019/20 audit comment:** No issues noted in the CY audit. Management response: Increased professional capacity in the Finance function is improving the Council's ability to respond to the required implementation of new Accounting Standards.
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. We recommend that the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems and would expect an accounting paper to be prepared for the purposes of 2019/20 audit. **2019/20 audit comment:** IFRS 16 implementation has been deferred. Management response: In March 2020, in the light of COVID-19 pressures, HM Treasury and the Financial Reporting Advisory Board (FRAB) decided that the IFRS 16 implementation deadline of 1st April 2020 for the public sector will be deferred for a further year, to 2021/22. Leasing is not currently a material issue at the Council.

Control observations – Prior period audit (continued)

Area	Observation
Preparation of cash forecasts	We note that the council does not prepare detailed cash flow forecasts. This restricts the councils ability to manage its working capital effectively and inform medium and long term finance strategy and planning, including its capital expenditure programme and financing requirements. We therefore recommend the council produces, a monthly basis, detailed cash forecasts for a period of at least 12 months. We also recommend that the actual cash balances are then compared to the forecasts and explanations for any variances are provided. **2019/20 audit comment:** We note that the implementation is still in progress. Management response: Extraordinary cash flows triggered by the Council’s role in the Covid-19 pandemic relief effort has undermined the ability to successfully implement (accurate) detailed Cash Forecasts, although cash flows have been successfully managed within acceptable limits since October 2020. The implementation of more sophisticated Cash Forecasts is a major priority for the newly appointed Senior Accountant post (scheduled with effect from 1st October 2021).

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

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

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

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

Deloitte LLP

for and on behalf of Deloitte LLP
7 July 2021

Appendices

Audit adjustments
Adjusted misstatements

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

		Debit/(credit) CIES £m	Debit/(credit) in net assets £m	Debit/(credit) prior year reserves £m
Misstatements identified in current year				
Incorrect classification of grant cash receipts	[1]		2.6 / (2.6)	
Misclassification of VAT Receivables	[2]		0.8 / (0.8)	
Incorrect posting of NNDR Provision	[3]	4.8	(4.8)	
Total		**4.8**	**(4.8)**	

[1] Deloitte noted that one side of the journal posting was incorrectly coded to cash rather than deferred income in relation to grant cash receipts for FY20/21.

[2] The VAT receivables balance was misclassified thus leading to the gross up of debtors and creditors. The corrective posting impacts balance sheet only.

[3] Management had incorrectly posted the £2.4m NNDR Provision adjustment as a reduction rather than an increase to the provision balance. This error required a corrective posting of £4.8m to be applied to the CIES and balance sheet.

Audit adjustments
Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask officers to correct as required by ISAs (UK). Uncorrected misstatements to date increase total comprehensive expenditure in the CIES by £0.65m, decrease net assets by £0.65m, and decrease usable reserves by £0.65m.

		Debit/(credit) CIES £m	Debit/(credit) in net assets £m	Debit/(credit) prior year reserves £m
Misstatements identified in current year				
Impact of Goodwin judgement on pension liability	[1]	0.65	(0.65)	
Misstatements identified in prior years				
N/A				
Total		**0.65**	**(0.65)**	

[1] Refer to page 13 for further detail in this regard.

Disclosure Deficiencies

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Provisions	In line with para 8.2.4.2 of the CIPFA code, authorities shall disclose, for each class of provision: - the carrying amount at the beginning and end of the period additional provisions made in the period, including increases to existing provisions - amounts used (i.e. incurred and charged against the provision) during the period - unused amounts reversed during the period, and - the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.	Based on our review of the accounts, we note that this requirement of the Code has not been complied with as per our review of Note 19 Provisions.

Fraud responsibilities and representations

Responsibilities explained

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. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

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

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

Audit work performed:

In our planning we identified capitalisation of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

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

We have reviewed the paper prepared by management for the on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No significant concerns have been identified from our work

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 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.

	Proposed £ (excl. VAT) 2019/20
Financial statement audit under the NAO's Code of Audit Practice [1]*	49,797
Additional fee for extended audit and 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 have incurred additional costs due to the extended audit and 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.