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MALDON DISTRICT COUNCIL



Maldon District Council

Audit planning report to the Audit Committee for the year ending 31 March 2019

Issued on 12th March 2019 for the meeting on 4 April 2019

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Introduction

The key messages in this report:

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

- A robust challenge of the key judgements taken in the preparation of the 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.

I have pleasure in presenting our planning report to the Audit Committee for our first year audit for the 2019 year end. 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 area of significant audit risk we have so far identified:

- 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.

We have also identified the following as other areas of audit focus:

- Pension Liability
- Valuation of Property, Plant and Equipment

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. 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. Our conclusion is consistent with that reached by our predecessor last year.

Our risk assessment is an ongoing process and any changes will be reported to the Audit Committee in due course.

Introduction

The key messages in this report:

**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.

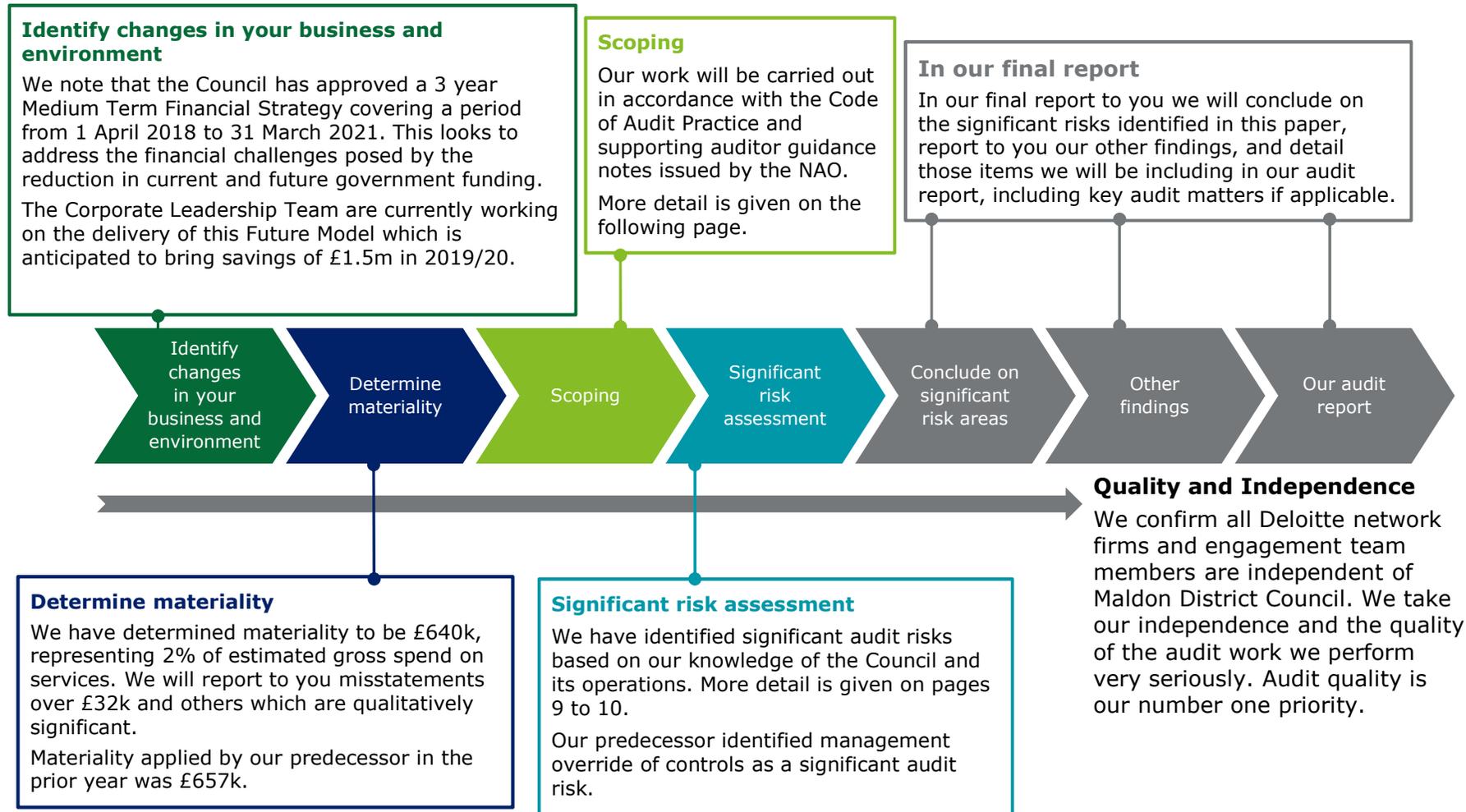
Brexit

The arrangements following the UK's exit from the EU are not yet clear. Our audit plan does not include any risks or procedures in respect of the impact upon the Authority, whether on Value-for-Money (VfM) arrangements, or more widely. We will update the Audit Committee if any risks are identified as the eventual circumstances of the UK's exit become clear.

Craig Wisdom
Lead audit partner

Our audit of the statement of accounts explained

We tailor our audit to your Authority



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.

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 are not planning to take reliance on the work of internal audit, it will however be considered as part of our risk assessment.

We have attended audit committees since our appointment and we have been sighted on the progress of Internal Audit. We will review their reports issued as part of the 2018/19 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

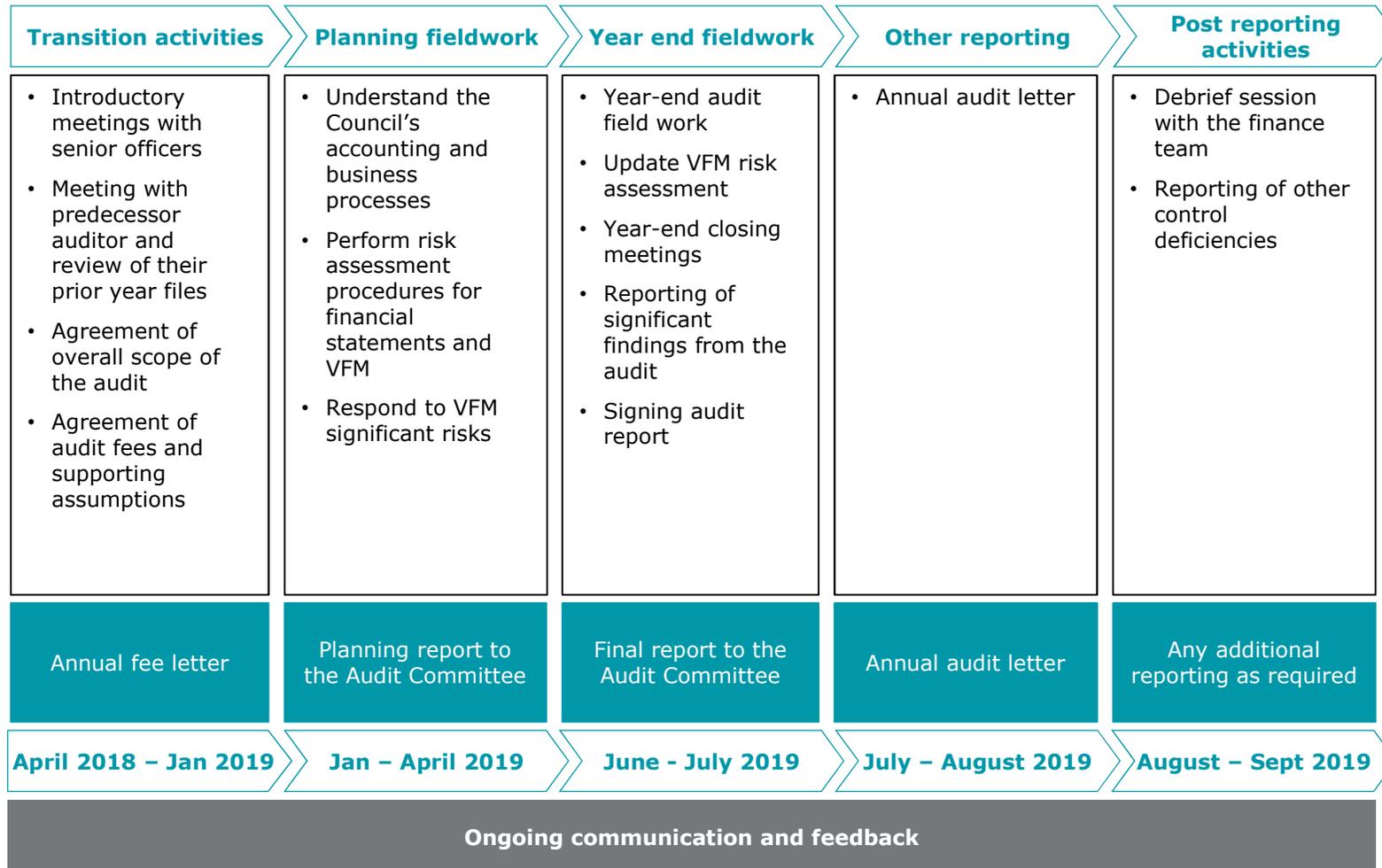
The audit partner has determined materiality as £640k, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements. We will report to you misstatements over £32k and others which are qualitatively significant.

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.



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.

Prior year significant audit risks (financial statements)

- Management override of controls

Changes in your business and environment

We note that the Council has approved a 3 year Medium Term Financial Strategy covering a period from 1 April 2018 to 31 March 2021. This looks to address the financial challenges posed by the reduction in current and future government funding. This includes looking for strategic and commercial opportunities to generate additional income.

2018/19 will also be the first financial period that the Authority will adopt both International Financial Reporting Standard 15 – Revenue and International Financial Reporting Standard 9 – Financial Instruments. No significant impact is expected.

IAS 1 Critical accounting estimates

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

Principal risk and uncertainties

- The biggest risk to the Authority is the future uncertainty around funding.
- Further reduction in funding is also expected due to the fact that Maldon does not support social and adult care services.
- A new Business Rates retention system will be implemented leading to a lower percentage of income being retained.

Significant risk

Management override of controls

Risk identified

In accordance with ISA 240 (UK) 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
2017/18	£48.1m	£73.1m	£26.5m
2016/17	£43.8m	£74.0m	£31.8m

Risk description

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

As at 31 March 2018, the Council had a £26.5m 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 Committee as a key area of management judgement.

LGPS

For the LGPS (Local Government Pension Scheme), it is possible to identify Maldon 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 Maldon 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.

Other areas of audit focus (continued)

Valuation of Property, Plant and Equipment and Investment Property

	Cost	NBV	Investment Property
2017/18	£41.7m	£34.6m	£1.8m
2016/17	£40.9m	£33.6m	£2.0m
Risk description	Further risk assessment procedures and planned response		
<p>The Council held property, plant and equipment of £35m and Investment Property of £2m at 31 March 2018 which are required to be recorded at current or fair value at the balance sheet date.</p> <p>All freehold and leasehold properties including plant and machinery, which comprise the Council's property portfolio, have been fully revalued as at 31 December 2017 and a statement of reassurance was issued by the Valuation Office confirming there was no material changes between 31 December 2017 and 31 March 2018. Property, plant and equipment also forms a material balance in the Council's financial statements.</p> <p>The properties are valued on the basis of open market value for the existing use or the depreciated replacement cost. The valuations are by nature significant estimates which are based on specialist and management assumptions.</p> <p>In the current year, the Council has changed its revaluation policy in line with the accounting procedure that all Local Authorities must conduct and the Council will be performing valuations on a rolling basis for 1/5th of their assets on an annual basis and the remaining assets are reviewed at year end for any material changes.</p>	<ul style="list-style-type: none"> • We will use our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's property portfolio, including considering movements compared to those of other councils performing valuations for 2018/19. • We will review the instructions given to the valuer responsible for the review of material changes for the remaining assets not revalued at year end and assess their experience and qualifications. We will consider factors for potential impairment. • We will check whether any adjustments to the value of previously capitalised works are required and how these have been calculated. • We will challenge management's assessment as to whether any impairment arises in respect of newly capitalised expenditure. 		

Value for money conclusion

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 work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment procedures include:

- Reading the annual governance statement
- Considering local and sector developments and how they impact on the Council
- Reviewing the audit report issued by our predecessor in respect of 2017/18
- 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 value for money significant risks at this stage of our risk assessment.

Our predecessor did not identify any significant risks in relation to the value for money arrangements.

An unqualified value for money conclusion was issued on this basis.

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 Committee, 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

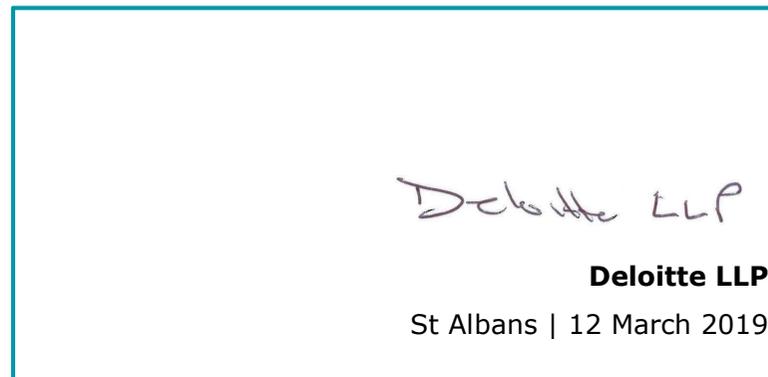
As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

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 | 12 March 2019

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 management override of controls as key audit risk for your organization. Our risk assessment is however an ongoing process and any changes will be reported to the Audit Committee in due course.



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 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 Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
Non-audit fees	There are no non-audit fees.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the 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 2018 to 31 March 2019 are as follows:

	£
Audit under the NAO's Code of Audit Practice: Council	37,942
Total audit fees	37,942



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