



Maldon District Council

Audit planning report to the Audit Committee for the year ending 31 March 2020

Issued on 9th July 2020 for the meeting on 30th July 2020

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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 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 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 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.

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.

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 page 14 and 15. 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.

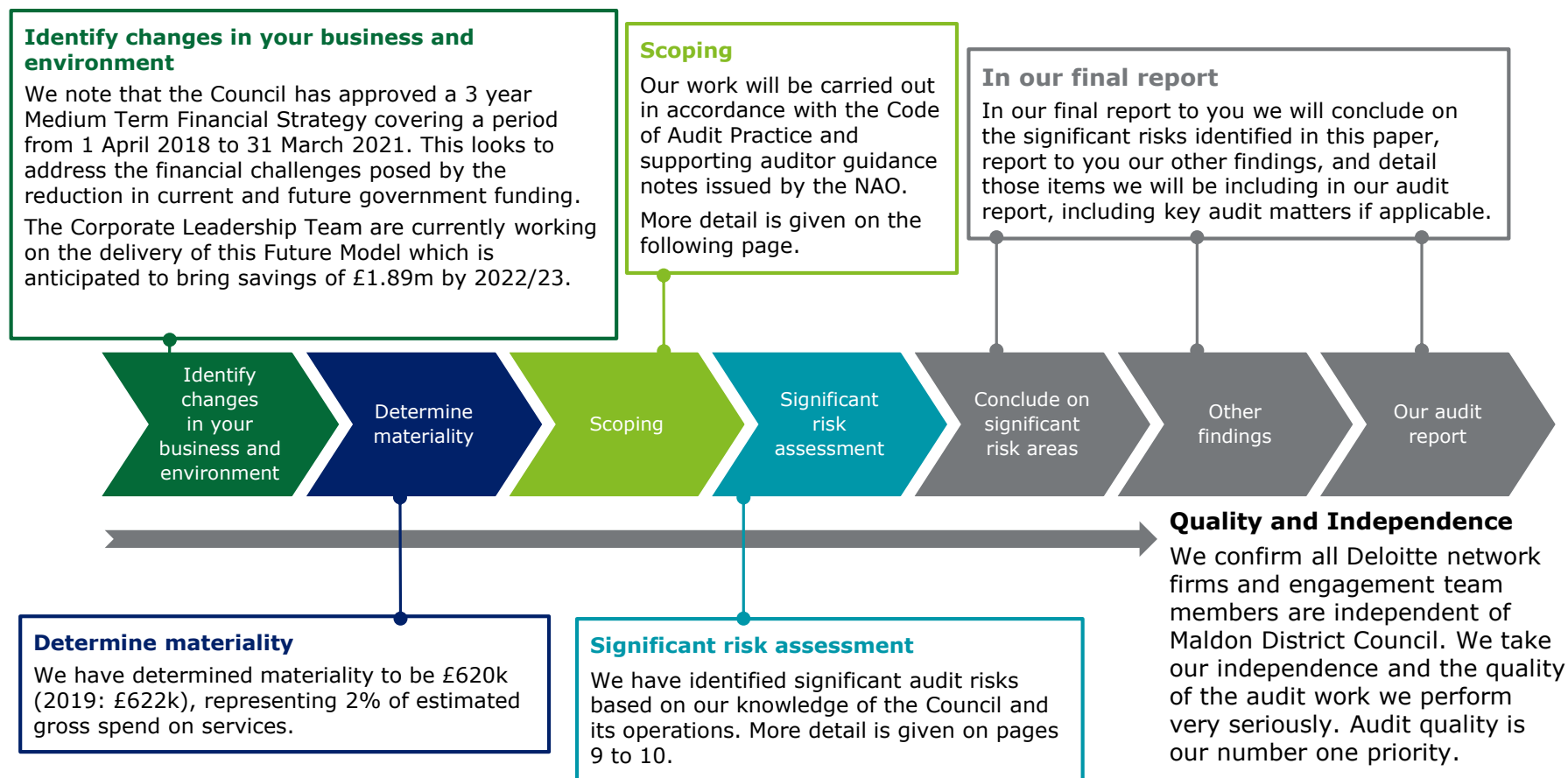
Follow-up on prior year recommendations

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



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 committees 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 £620k (£622k), 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.

Pre-planning	Planning fieldwork	Year end fieldwork	Other reporting	Post reporting activities
<ul style="list-style-type: none"> • Agreement of overall scope of the audit • Agreement of audit fees and supporting assumptions 	<ul style="list-style-type: none"> • Understand the Council's accounting and business processes • Perform risk assessment procedures for financial statements and VFM • Respond to VFM significant risks 	<ul style="list-style-type: none"> • Year-end audit field work • Update VFM risk assessment • Year-end closing meetings • Reporting of significant findings from the audit • Signing audit report 	<ul style="list-style-type: none"> • Annual audit letter 	<ul style="list-style-type: none"> • Debrief session with the finance team • Reporting of other control deficiencies
Annual fee letter	Planning report to the Audit Committee	Final report to the Audit Committee	Annual audit letter	Any additional reporting as required
April 2019 – Jan 2020	Jan – March 2020	June - August 2020	July – August 2020	August – Sept 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

Principal risk and uncertainties

- The biggest risk to the Authority is the future uncertainty around funding. There is a significant funding gap identified in the Medium Term Financial Strategy
- Ongoing uncertainty on the future system of local government funding and how Maldon will fare within it.
- The new system for the Business Rates retention is being moved away from the 100% retention scheme originally proposed to a lower percentage.

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.

The impact of Covid 19, whilst primarily post year end, has put pressure on future financial sustainability.

Significant risk

Management override of controls

Risk identified	<p>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.</p>
Our response	<p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <ul style="list-style-type: none"> • 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)

APPENDIX 1

	Pension Assets	Pension liabilities	Net pension deficit
2018/19	£50.9m	£76.5m	£25.5m
2017/18	£48.1m	£74.5m	£26.5m

Risk description

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

As at 31 March 2019, the Council had a £25.5m 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.

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.

Other areas of audit focus (continued)

APPENDIX 1

Valuation of Property, Plant and Equipment and Investment Property

	2018/19	2017/18	Cost	NBV	Investment Property
			£43.7m	£34.9m	£2.7m
			£42.6m	£34.6m	£2.0m
Risk description			Further risk assessment procedures and planned response		
The Council held property, plant and equipment of £34.9m and Investment Property of £2.7m at 31 March 2019 which are required to be recorded at current or fair value at the balance sheet date.			<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 2019/20 		
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.			<ul style="list-style-type: none"> We will check whether any adjustments to the value of previously capitalised works are required and how these have been calculated. 		
The Council's material assets are reviewed annually as at 31 December, these are the Council offices and 2 leisure centres.			<ul style="list-style-type: none"> We will challenge management's assessment as to whether any impairment arises in respect of newly capitalised expenditure. 		
For the remainder of the operational assets, the financial year to 31 March 2019 represented year three of a five year rolling programme in which 20% of the portfolio was revalued. For those assets not revalued in year, they are reviewed at year end for any material changes since the last valuation date.			<ul style="list-style-type: none"> 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. 		
In the current year there is increased uncertainty over the valuations due to Covid 19 and it is expected that the Councils valuers will include a material uncertainty clause in the valuation that is provided.			<ul style="list-style-type: none"> 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. 		

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 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 Maldon 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 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

St Albans | 9 July 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 Committee for the year ending 31 March 2020 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

APPENDIX 1

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]*	37,942
Additional fee for change of scope due to COVID-19 [1]*	TBC
Total audit fees	37,942

[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.

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