



Maldon District Council

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

Draft issued on 09 September 2020 for the meeting on 24 September 2020

01 Our final report

Introduction	3
Our audit explained	5
COVID-19 pandemic and its impact on our audit	6
Significant risks	9
Other matters	12
Value for Money	13
Our audit report	14
Your annual report	15
Other significant findings	16
Purpose of our report and responsibility statement	18

02 Appendices

Audit adjustments	20
Fraud responsibilities and representations	21
Independence and fees	22

The key messages in this report

I have pleasure in presenting our report to the Performance, Governance and Audit Committee of Maldon 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 in 30th July 2020.

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.

Status of the audit

Our audit is at an advanced stage at the date of issue of this report with the following key matters still outstanding:

- evaluation of information from Pension Fund auditors;
- full review of final, updated financial statements;
- receipt and evaluation of the impact assessment in relation to adjusting, post balance sheet events in relation to national rulings regarding local government pensions schemes (namely McCloud and Goodwin – see page 12 for detail);
- receipt of the desktop valuation report;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2020 through to signing.

We will provide an oral update on these matters including an update regarding the status of the audit at the meeting.

We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report. We have increased our risk on property valuations from higher risk to significant risk due to errors identified in the current year and the previous year.

Conclusions from our testing

- We have not identified any significant uncorrected audit adjustments or disclosure deficiencies. The version of the accounts presented to this committee has been amended for our proposed changes. As our audit work is ongoing, further misstatements may be identified through the completion of our remaining work. We will provide an oral update regarding any such matters in the meeting.
- We have summarised any audit adjustments on page 20.
- We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 6 to 9. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic
- We identified findings or internal control deficiencies which have been included on page 16-17.
- As detailed in our work on the valuations set out on page 10, management's expert – DVS – 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.
- Based on the current status of our audit 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.

The key messages in this report (continued)

Financial Sustainability and Value for Money	• In the CIES, following agreed adjustments, the Council reported an accounting surplus of £1.8m for the year (2018/19: £2.2m) which included net gains of £0.07m in respect of property revaluation (2018/19: net gain of £0.5m) and gains due to remeasurement of the pension liability of £2.3m (2018/19: £3.4m). At the provision of service line the Council showed a net deficit of £0.6m (2018/19: net deficit £1.7m). At year end the Council had usable reserves of £11.9m (31 March 2019: £10.5m) and unusable reserves of £13.7m (31 March 2019: £11.4m). • Cash and cash equivalents held by the Council increased to £12.1m from £7.9m as at 31 March 2019. • We did not identify any significant risk related to Value for Money 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. We have received an updated version back from the Council that we are checking complies with all the relevant requirements. We will update you in the meeting if any changes arise from this.
Duties as public auditor	• We did not receive 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

We note that the Council has an approved 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.

The Corporate Leadership Team are currently working on the delivery of this Future Model which (pre Covid-19 impact) was anticipated to bring savings of £1.89m by 2022/23.

Scoping

Covid-19 consequences have impacted our work. Details are included on pages 6 and 7. 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.

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 16 of this report.



Determine materiality

When planning our audit we set our materiality for the Council audit at £620k (2018/19: £622k) based on gross expenditure. Materiality has not changed since our planning report. We report to you in this paper all misstatements above £31k (2018/19: £31k).

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. During the course of the audit, we increased our risk on property valuations from higher risk to significant risk due to errors identified in the current year and the previous year.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks from the work so far performed. The Committee members must satisfy themselves that management's judgements are appropriate and will need to agree arrangements to consider any significant findings arising from audit work which is not yet complete.

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.

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 • Bad debts provision policy • 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.

Potential Impact on annual report and financial statements	Audit response
Impact on property, plant and equipment	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	The material uncertainty noted above also includes Investment Properties.
Impact on pension fund investment measurement	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. At the date of this report, we have had the response from the Pension Fund auditor and we are currently evaluating the work to conclude on this matter.
Expected credit losses	No issues in relation to this have arisen from our audit work.

	Potential Impact on annual report and financial statements	Audit response
Covid related income received pre year end	- There was one main receipt of income related to Covid-19 that were received pre 31 March 2020 Covid-19 LA Support grant. This was the first tranche of £1.6bn passed out to Councils by MCHLG on March 27 2020. The Council received £0.7m. This grant was unringfenced 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 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 councils 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. We have received a further updated version back from the Council that we are checking complies with all the relevant requirements. We will update you in the meeting if any changes arise from this.

Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a 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 Council's controls for specific transactions.

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.

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.

We noted that not all individual journals have evidence of review, and have raised a control recommendation on page 16

Valuation of property assets

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. In our planning paper this risk was not classified as a significant risk, however as detailed below, during the course of our work we identified material errors in the valuation. As this is the second year in a row that we have identified material errors in the valuation we elevated this to a significant risk.

Key judgements and our challenge of them

The Council held £30.7m of property assets at 31 March 2020, an increase of £1.4m, relating to a revaluation gain. The Council also held £2.8m of investment properties at year end with a revaluation gain of £0.1m.

The Council's material assets are reviewed annually as at 31 December, these are the Council offices and 2 leisure centres.

For the remainder of the operational assets, the financial year to 31 March 2020 represented year three of a five year rolling programme in which 20% of the portfolio was revalued. The land and buildings have been revalued on a 5 year rolling basis, at 20% (by number, not value) as at the 31 December 2019.

The Council's valuer had advised there had been no material change in value between the 31 December 2019 and 31 March 2020 and a letter of assurance was issued on 5th June 2020.

The investment properties are all revalued annually as at 31 December.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation.
- We obtained an understanding of approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We tested a sample of inputs to the valuation.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets including considering the assumptions made of movements between the valuation being performed at earlier stages in the year and the year-end.
- We tested a sample of revalued assets and re-performed the calculation of the movement to be recorded in the financial statements to check correctly recorded.
- We considered the impact of uncertainties relating to Covid-19 and the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.
- Given, we have identified errors in the valuation in the last 2 years, we have challenged management on assets not valued in previous 2 years and a desktop valuation is currently being performed on a sample of those assets by the valuer.

Deloitte view

During the course of our testing we noted the following:

- We identified a componentisation error on the Council Offices valuation amounting to an overstatement of £1.4m which has subsequently been corrected by management. This error has not been identified by the DVS quality control procedures.
- There were inconsistencies identified between the input data used in the valuation and that held by the Council. This indicated an issue with the quality of data held by the Council.

We have made recommendations in relation to these findings on page 16.

Our work on assets not valued in previous 2 years is still in progress.

Significant risks (continued)

Valuation of property assets – 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 including the extracts below:

In relation to the recent outbreak of the Novel Coronavirus (COVID-19) and the fact that 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, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case.

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

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 4, 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."

Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. This can be seen in Note 4 to the accounts, an extract of which is included below:

As at the valuation date, the valuers consider that they can attach less weight to previous market evidence for comparison purposes and DRC valuations, to inform opinions of value. Indeed, the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. Their valuations are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty and a higher degree of caution – should be attached to their valuations than would normally be the case.

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 net pension liability has decreased from £25.5m at 31 March 2019 to £24.9m at 31 March 2020 primarily as a result of movements in asset values and some changes in discount rate and inflation assumptions. This total includes the impact of the McCloud adjustments.

The Council's 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 includes an element of the impact of McCloud however there continues to be a discussion with the scheme actuary on a potential further amendment to this figure. We awaiting a response from the scheme actuary and we will assess this using our pension specialist team.

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). We have received a response from the scheme actuary and are currently assessing this using our pension specialist team.

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 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%	1.70%	Reasonable, slightly prudent
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 is continuing in relation to pension liabilities and assets and we are therefore not yet able to conclude in this area. We will provide an update to the Performance, Governance and Audit Committee meeting.

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, Maldon 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

We anticipate that our opinion on the financial statements will be 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).

We anticipate that our conclusion on the Council's arrangements will be 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.

We anticipate that our conclusion in this area will be satisfactory.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement. We are still in the process of reviewing the final draft of the statement of accounts.

	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; and - Basis of preparation - 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.
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.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Review of property valuations	We identified a componentisation error on the Council Offices valuation amounting to an overstatement of £1.4m which has subsequently been corrected by management. This error has not been identified by the DVS quality control procedures. We recommend management revisit the engagement letter and related instructions issued to the valuer to ensure that there is clarity on the expected process and reporting.	
Review of property valuation inputs	We identified inconsistencies between the input data used in the valuation and that held by the Council. We recommend that data supplied to the valuer for use in the valuation is checked back to source data held by the council before being issued.	
Approval of journals	The Sage finance system does not enforce approval of journals by a second member of staff and not all journals are individually approved. We note that most journals are not approved but there are mitigating controls implemented by management such as control account reconciliations and budget v/s actual variance analysis which help mitigate this risk. We recommend that all journals should be subject to review and approval even if this is on a batched basis.	
Fully Depreciated Assets	We have identified around £6.5m of fixed assets at year end which are fully depreciated and which are still recorded in the general ledger at cost and accumulated depreciation. It is not clear whether all these assets are still in use by the Council. We recommend the Council: • Completes a review of asset lives. • Annually ensures that the information on asset lives given in the accounts is consistent with the lives actually assigned within the fixed asset register. • That fully depreciated assets be assessed and written off if necessary to ensure an accurate reflection in the general ledger	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of IT control findings, which we have included below for information.

Area	Observation	Priority
User Access Reviews	Failure to review the appropriateness of access rights may mean that privileges are no longer valid or are beyond a user's current need. If unnecessary access privileges are not removed, there is a risk of unauthorised access to systems and data. It was noted that there are no formal user access reviews performed.	
	In addition, where a review to identify whether user accounts for employees that have left the council has not been performed, there is a risk that unremoved leavers accounts may be compromised by current employees.	
	We recommend management consider establishing formal periodic reviews of all user accounts. This should include the following checks: - No user IDs exist for members of staff who have left the council; - User permissions should be appropriate for staff job functions; and - Those user IDs that have not been used for a significant period (for example 30 days) should be investigated and deleted or disabled, where appropriate.	
	Business managers should be involved in this review to ensure that they are aware of the level of access assigned to an employee in the application. The review and any resulting actions should be documented, approved and retained.	

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 Performance, Governance and 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 Performance, Governance and 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.

for and on behalf of Deloitte LLP
09 September 2020

Appendices

APPENDIX 1



Audit adjustments

Corrected misstatements

All the misstatements identified up to the date of this report have been corrected by officers.

Disclosures

Disclosure misstatements

No further uncorrected disclosure misstatements have been identified since our earlier report to this committee. Disclosure misstatements identified in that report have been corrected.

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 that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2019/20, in line with the scale fee provided PSAA, is £37.9k as broken down below. We are in discussions with the Council on increases to the scale fee as a result of additional work due to Covid-19 and other matters. No other non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. 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 are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

	Proposed £ (exc VAT) 2019/20	Actual £ (exc VAT) 2018/19
Code audit fee	37,942	37,942
Total audit	37,942	37,942
<i>Additional costs due to change of scope due to COVID and Asset Valuation errors resolution *</i>	16,820	-
<i>Additional costs in 2018/19</i>	-	37,000
Total fees	54,762	74,942

- * Please note that the additional fee is subject to approval by PSAA

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