



Maldon District Council

Audit planning report to the Audit Committee for the year ending 31 March 2021

Issued 13 July 2021 for the meeting on 29 July 2021

Deloitte Confidential: Government and Public Services

01 Preliminary planning report

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The key messages in this report

We have pleasure in presenting our planning report to the Audit Committee for the 2020/21 audit. We would like to draw your attention to the key messages of this paper:

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.

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 Authority, and work to satisfy ourselves that the Authority has made proper arrangements to secure value for money (VFM) in its use of resources. There has been significant changes to the Code with respect of the VfM requirements, and therefore the scope of our work with regards to VfM will be changed from previous years, as discussed on page 4.

Our responsibilities as auditor, and the responsibilities of the Authority, 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.

The audit approach reflects changes to International Standards on Auditing (UK) on management estimates (ISA (UK) 540) and going concern (ISA (UK) 570) effective for this year and the Special Guidance Note (SGN) 01 which is intended to assist auditors in their assessment of going concern on audits of financial statements.

Progress of our audit planning procedures

Our audit planning procedures are currently in progress. Further work is required to enable us to finalise our risk assessment, and our work on the assessment of whether the Authority has made proper arrangements to secure VFM in its use of resources is also in progress and discussion has been held with officers around the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03.

Areas of focus in our work on the accounts

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. In relation to our audit for the year ending 31 March 2021, we have identified the following significant audit risks:

- 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
- Recognition of COVID-19 related income. This is a new significant risk in the current year.

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

- Pension Liability
- Valuation of Property, Plant and Equipment. This was escalated to a significant risk in the prior year due to the level of errors we identified. Having reviewed the councils response to our recommendations in this area, we have downgraded it to an area of focus again.

The key messages in this report:

**Areas of focus
in our work on
the accounts**

We will continue to develop our risk assessment over the coming months as we complete our planning procedures and will inform the Audit Committee of any changes to the significant risks identified.

Our description of the potential significant audit risks are set out on pages 14 to 15.

International Standards on Auditing set a rebuttable presumption of the risk of fraud in the recognition of revenue. The presumption of this presumed significant risk was rebutted in the previous year. However, during 2020/21, the Authority has received additional funding in relation to COVID-19, although all funding has not yet been confirmed. We have therefore reassessed the risk profile of the Authority and identified a new alternative risk in relation to COVID-19 related income.

International Financial Reporting Standard 16 – Leases, is mandatory for Local Authorities from periods commencing on or after 1 April 2021. The implementation of the new standard on leases, IFRS 16, has been deferred again for another year, with a revised implementation date of 2022/23 and will require adjustments to recognise on balance sheet arrangements currently treated as operating leases.

**Areas of focus
in our work on
VFM**

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. Our risk assessment procedures are ongoing and we will update the Audit Committee if we identify any significant risks in relation to our work in this area.

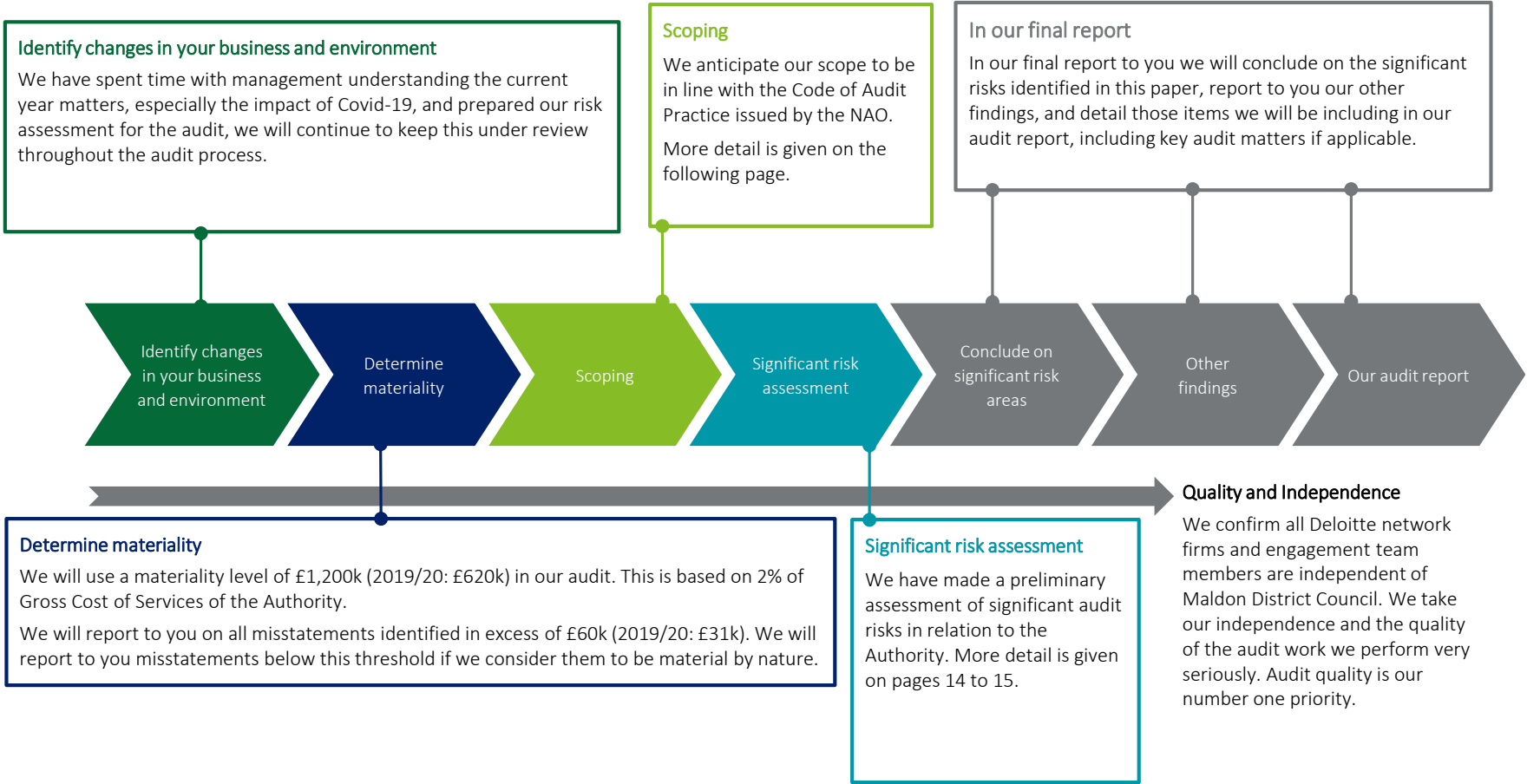
The National Audit Office has issued a revised Code of Audit Practice for 2020/21, and has consulted on a revised approach to "Value for Money" work. This will move to a regime of narrative reporting in a new public "Annual Auditor's Report" issued at the same time as the audit opinion.

**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.

Our audit explained

We tailor our audit to your Authority



Materiality

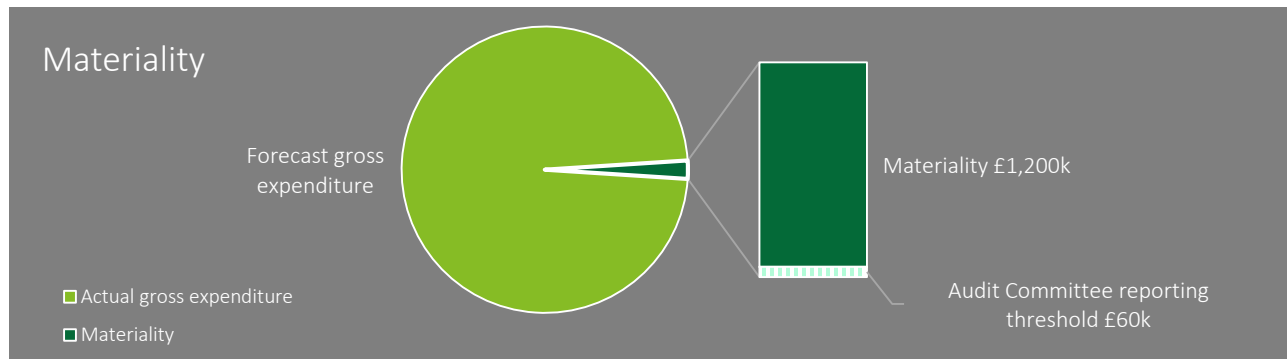
Our approach to materiality

Basis of our materiality benchmark

- The Audit Partner has determined materiality as £1,200k (2019/20: £620k) based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the annual accounts.
- We have used 2% of actual gross expenditure as the benchmark for determining materiality. We have judged expenditure to be the most relevant measure for the users of the accounts.
- The approach is consistent with previous years.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £60k (2019/20: £31k).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the Audit Partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

We have the following areas of responsibility under the Audit Code

Statement of accounts

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB"), Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO"). The Authority will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

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").

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.

Annual Governance Statement

We are required to consider whether there are any inconsistencies between the Annual Governance Statement and the financial statements and information that we are aware of from our work on the statement of accounts, VfM conclusion and other work.

We will also review any reports from relevant regulatory bodies and any related action plans developed by the Authority.

Value for Money conclusion

We are required to consider the arrangements that the Authority has made securing financial resilience and economy, efficiency and effectiveness in its use of resources, if we identify any significant weaknesses to make recommendations, and to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Authority's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Authority's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This represents a significant increase on scope on previous years. The NAO and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. We will agree the fee change for this work with management once requirements are finalised.

Scope of work and approach

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 will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified significant control weaknesses, we will consider adjusting our testing so that the audit risk is covered by our work.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Authority completes the Code checklist during drafting of their statement of accounts.

Risk assessment

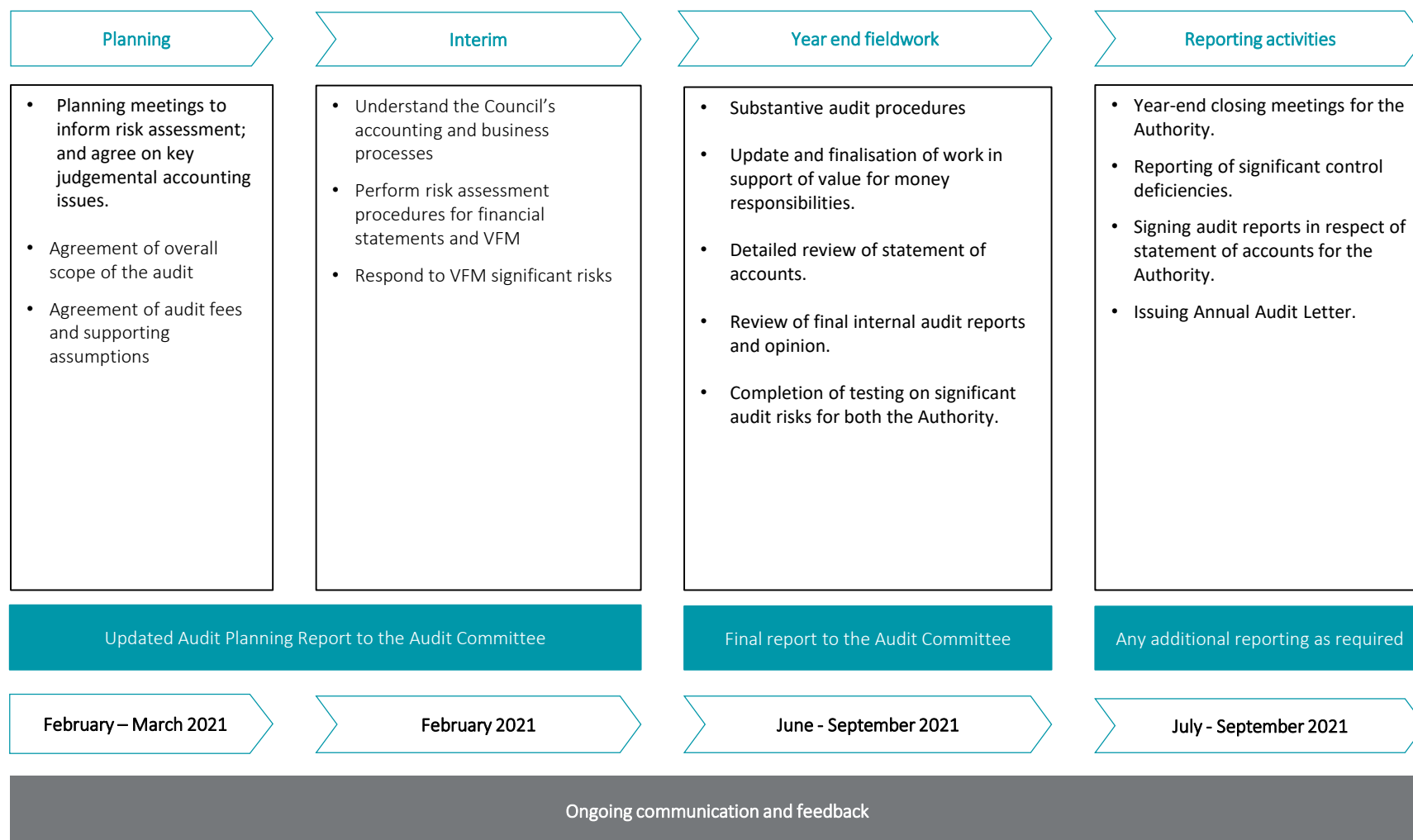
We consider a number of factors when deciding on the significant audit risks. These factors include:

- our audit planning procedures, which are in progress;
- the significant risks and uncertainties previously reported in the statement of accounts;
- the IAS 1 critical accounting estimates previously reported in the statement of accounts;
- our assessment of materiality; and
- the changes that have occurred in the Authority's operations and external environment since the last statement of accounts.

Continuous communication and reporting

Planned timing of the audit

The following sets out the expected timing of our reporting to and communication with you:



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 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

We therefore expect a thorough assessment of the current and potential future effects of the COVID-19 pandemic 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);
- Uncertainties relating to the council's financial position, 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 |
|--|---|--|
| <p>We will consider the key impacts on the business such as:</p> <ul style="list-style-type: none"> • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in service income. | <p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:</p> <ul style="list-style-type: none"> • Narrative reporting, including disclosures on financial sustainability • Principal risk disclosures • Impact on property, plant and equipment valuations • Impairment of non-current assets • Allowance for expected credit losses • Events after the reporting period and relevant disclosures | <p>We will continue to assess the impact on the audit including:</p> <ul style="list-style-type: none"> • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel. |

Impact on annual report and financial statements

Impact on property, plant and equipment

The Royal Institute of Chartered Surveyors issued a practice alert in March 2020, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and “emphasis of matter” paragraphs in audit reports. By September 2020, RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2021 are not expected to be affected by material valuation uncertainties. However, the on-going financial impact of the pandemic has impacted valuations, both through demand for particular asset types and weakening the financial standing of tenants.

The Council needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council should consider with their valuers the impact that COVID-19 has had on current value. The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.

Expected credit losses

Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.

Accounting for Covid-19 response measures

One of the main elements of the response to Covid-19 which will have specific accounting considerations are the Covid-19 grants that the Council has received. CIPFA have not yet published guidance on accounting for Covid-19 grant income, and specific consideration will need to be given as to whether the Council is acting as the principal or agent in relation to the various grants.

The Council has prepared an assessment of Covid-19 grant income and the proposed treatment which we will review in due course.

Narrative and other reporting issues

The following areas will need to be considered by the Council:

- 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.

Events after the reporting period and relevant disclosures

Events are likely to continue to move swiftly, and the Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis.

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 Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected as areas of audit focus; valuation of the Authority's properties and pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte response and challenge



In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the annual accounts. In designing and performing audit procedures for such tests, we plan to:

- Test the design and implementation of controls over journal entry processing;
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Select journal entries and other adjustments made at the end of a reporting period; and
- Consider the need to test journal entries and other adjustments throughout the period.

Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we plan to:

- Evaluate whether the judgments and decisions made by officers in making the accounting estimates included in the annual accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, we will re-evaluate the accounting estimates taken as a whole; and
- Perform a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the annual accounts of the prior year.

For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Significant risks

Recognition of COVID-19 related income

Risk identified



ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2020/21, the Council has received additional funding in relation to COVID-19 costs. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils on behalf of the Government.

We have pinpointed the significant risk to the completeness and occurrence of the funding for COVID-19 costs and the completeness and accuracy of the agency arrangement disclosures.

The key judgements for management are assessing:

- Any conditions associated with the cost funding; and
- Whether the Council is acting as a principal or agent in administering the business support schemes.

Deloitte response and challenge



We will perform the following:

- Assess the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding;
- Test a sample of funding for COVID-19 costs and confirm these have been recognised in accordance with any conditions applicable; and
- Test the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
 - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
 - The Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and
 - The net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.

Other areas of focus

Property Valuation

| | Cost | NBV | Investment Property |
|---------|--------|--------|---------------------|
| 2020/21 | £38.3m | £33.5m | £2.9m |
| 2019/20 | £45.4m | £36.0m | £2.8m |

Risk identified



Investment Property of £2.8m at 31 March 2020 which are required to be recorded at current or fair value at the balance sheet date.

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.

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 2020.

The remaining assets not revalued are reviewed at year end for any material changes.

Property valuation was escalated to a significant risk in the prior year due to the level of errors we identified. Having reviewed the councils response to our recommendations in this area, we have downgraded it to an area of focus again.

Deloitte response and challenge



- 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
- 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.
- 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.

Other areas of focus (continued)

Pension liability



Risk identified and key judgements

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

As at 31 March 2020, the Council had a £24.9m 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.



Deloitte response and challenge

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 will seek to obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.

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 and Goodwin case on pension liabilities and review the disclosure within the accounts against the code.

There is a new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities. This introduces significant changes to the requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources). The NAO issued Auditor Guidance Note 03 (AGN03), Value for Money, in October 2020 setting out more detailed guidance on how the new requirements should be implemented. Key features of the requirements include:

For all bodies, the auditor will need to provide a public narrative commentary against the Value for Money criteria in a new “Auditor’s Annual Report” (AAR), to be issued alongside the audit opinion for Local Authorities. This commentary will include a summary against each of the reporting criteria, setting out the work undertaken, and judgements and local context relevant to the findings. This commentary needs to be supported by more extensive work to understand the body’s arrangements to secure economy, efficiency and effectiveness, to support this commentary and to identify whether there are risks of significant weaknesses in arrangements.

If a risk of significant weaknesses is identified, additional work is required to determine whether there are significant weaknesses and to make relevant recommendations if this is the case on a timely basis, which will also be explained in the Auditor’s Annual Report. The AAR will also include follow up on previous recommendations in respect of significant weaknesses and whether they’ve been implemented satisfactorily. The audit opinion will continue to include reporting by exception, though now this will be where the auditor has identified a significant weakness in arrangements rather than an overall conclusion on arrangements. The three criteria that would be considered in Value for Money work are be:

Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services;

Governance: How the body ensures that it makes informed decisions and properly manages its risks; and

Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

We will:

- Undertake VfM planning work under the revised procedures.
- As the detailed impact on scope becomes clearer, we will discuss and agree the impact of the required scope changes with management.
- Our year-end reporting will include our draft findings ahead of issue of the Auditor’s Annual Report.

Reporting hot topics

Increased focus on quality reporting

Deloitte view

The expectations of corporate reporting, reflected in the Financial Reporting Council's ('the FRC') monitoring and enforcement priorities, are increasing. While the focus is primarily on corporate entities, we highlight these areas where improved disclosures would help meet stakeholder expectations.



The potential impacts of Brexit

Depending upon events, organisations may be preparing annual reports against the backdrop of continued uncertainty around the UK's future relationship with the EU. Even with a deal agreed, the future basis of UK-EU trade will affect the longer-term viability period of 3-5 years and a longer consideration of prospects.

ACTION: Depending upon events through to the date of signing, we would expect to see annual reports reflecting at least:

- relevant risks and uncertainties, and actions taken to manage those risks; and
- consideration of whether there is any impact on critical accounting judgements and areas of estimation uncertainty.

We will discuss with the Council closer to the time areas where disclosures may be appropriate.



Climate-related risks

The report by the Intergovernmental Panel on Climate Change (IPCC) has made it clear that prompt and decisive action on climate change is required from governments, businesses and individuals alike.

The recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) are gaining momentum. The government has proposed mandatory TCFD disclosures by 2022, and the FRC is undertaking a major review of how organisations assess and report the impact of climate change. The FRC expects organisations to disclose how they have taken climate change into account in assessing the resilience of the business model, its risks, uncertainties and viability both in immediate and longer term.

Investors are challenging companies that are not factoring the effects of the Paris Climate Agreement into their critical accounting judgements and are not disclosing comprehensively these judgements, assumptions, sensitivities and uncertainties.

ACTION: Clearly articulate how your organisation is addressing climate change e.g.

- whether this is a principal risk and how it is being managed; and
- its impact on the business model, the viability statement and the key assumptions and projections in impairment reviews and valuations (including in assessing remaining asset lives).

Revisions to auditing standards coming into effect (continued)

APPENDIX 1

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Council (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 Financial Instruments, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020. For public sector bodies, this will be March 2021 year ends and later.

We summarise on the next few slides how this will impact our audit.

“There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates”

FRC letter to the IAASB, July 2017

| Area of change | Impact on our audit | Impact on the Council |
|--|---|--|
| Assessment of oversight and governance relating to estimates | In connection with our planning work to understand the entity and its environment, including internal control, we will specifically enquire regarding management’s processes, and the oversight and governance of those processes relating to accounting estimates. | You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof. |

Revisions to auditing standards coming into effect (continued)

APPENDIX 1

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures (continued)

| Area of change | Impact on our audit | Impact on the Council |
|--|---|--|
| Identification of inherent risk factors; separate assessment of inherent risk and control risk | Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them. | You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the annual accounts. |
| Objectives-based work effort requirements | We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty. | |
| Enhanced “stand back” requirement, to evaluate the audit evidence obtained | We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence. | You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence. |

Revisions to auditing standards coming into effect (continued)

APPENDIX 1

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures (continued)

| Area of change | Impact on our audit | Impact on the Council |
|--|--|---|
| Enhanced requirements about whether disclosures are “reasonable” | The extant ISA 540 required us to evaluate whether disclosures were “adequate”. The change to “reasonable” will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes. | You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty. |
| New requirements when communicating with those charged with governance | In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors. | You should expect increased reporting in relation to accounting estimates which may be mirrored in our Annual Audit Report. |

Areas where we consider the impact to be greatest:

Key areas impacted will include property valuations and net pension liability. Property valuations are by nature significant estimates as they are based on specialist and management assumptions which can be subject to material changes in value.

Net pension liability is subject to assumptions, mainly inflation assumptions and return on scheme assets, that can impact on the value of pension assets.

For both of the areas above we expect to receive reports from management’s specialists, setting out the basis of assumptions and methodologies. Officers should ensure that this information is available in advance of the 2020/21 audit fieldwork.

Audit Quality

Our commitment to audit quality



Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on the valuation of land and building and other significant judgements

We will obtain a deep understanding of your business, its environment and of your processes such as Revenue, Fixed Assets, Financial Reporting enabling us to develop a risk-focused approach tailored to the Authority.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve IT specialists and also Deloitte Real Estate to support the audit team in our work on valuation and pensions specialists in our work on the pension fund liability.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills.



Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. This will be headed up by one of our most experienced partners who will draw on colleagues from our dedicated Professional Standards Review function and other specialists to review before any audit or other opinion is signed. This team is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies." The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary 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 Authority.

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 | 13 July 2021

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:
 - officers;
 - officers who have significant roles in internal control; or
 - 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 – Prior Year Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our prior year audit:

| | Debit/ (credit) CIES £ | Debit/ (credit) in net assets £ | Debit/ (credit) prior year reserves £ | If applicable, control deficiency identified |
|---|---------------------------|---------------------------------------|---|---|
| Misstatements identified in current year | | | | |
| OVERSTATEMENT OF COUNCIL OFFICE VALUATION | - | (230,000) | 230,000 | Yes |
| GOODWIN JUDGEMENT IMPACT (PENSIONS) | 145,600 | (145,600) | - | Yes |
| Total | 145,600 | 375,600 | 230,000 | |

We obtained written representations from officers confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments were required.

Prior year audit adjustments (continued)

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements were identified during the course of our prior year audit:

We noted minor immaterial differences in the cash flow statement in relation to classification errors between different lines of the statement.

Appendix 3 - 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 Authority and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2021 in our final report to the Audit Committee. |
| Audit and Non-audit fees | Our audit fees are set out on the following page. There are no non-audit fees in the current year. |
| Independence monitoring | In our opinion there are no inconsistencies between the FRC's Ethical Standard 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 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 2020 to 31 March 2021 and as set out in our fee letter issued 24 August 2020 are as follows:

| | Current year £'000 | Prior year £'000 |
|---|-----------------------|---------------------|
| Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment | 88.6 | 54.8 |
| Total audit | 88.6 | 54.8 |
| Total fees | 88.6 | 54.8 |
| We note that the fee above represents an increase to the scale fee for the audit. The scale fee is £37.9k. The revision to the fee was communicated to management in 24 August 2020 and will still need to be agreed with PSAA. | | |

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