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wyre council

Report to the Audit Committee for the year ending 31 March 2020

February 2021

Contents

Introduction

The key messages in this report

I have pleasure in presenting our update report to the Audit Committee (the Committee) of Wyre Borough 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 March 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:

- Review of Debtors and Creditors testing;
- Provisions testing;
- Collection fund Provision for Bad and Doubtful Debts testing;
- Finalisation of pension membership, contributions and assets testing;
- Notes testing;
- Finalisation of documentation associated with grant income;
- Review of events since 31 March 2020 up to signing of accounts;
- Finalisation of the Statement of Accounts;
- Completion of internal quality assurance procedures including clearance of review points across a range of areas; and
- Receipt of signed management representation letter.

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 as reported to you in our audit planning report.

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

Conclusions from our testing

- Other than the points noted above, our audit is largely complete. Our testing of the significant audit risks and value for money is substantially complete subject to internal quality assurance procedures.
- We have summarised the uncorrected audit adjustments on page 25.
- 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)

Conclusions from our testing (continued)	• Our audit report will include an "Emphasis of Matter" paragraph regarding the material uncertainty over property valuations, discussed further on page 13. • We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 9 to 11. Further details are included in our work on the property valuations, where management's internal valuer identified a material valuation uncertainty. This is common to all valuations completed as at 31 March 2020 across the sector. This wording is reflected in our draft auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic. • We have reviewed the internal audit reports relating to the financial year, and have not placed any reliance on their work. • We have raised some control recommendations on pages 18 and 19.
Financial Sustainability and Value for Money	• In the CIES, the Council reported an accounting surplus of £5.2m for the year (2018/19: £6.3m) which is due in part to an actuarial gain on the pension liability of £6.3m (2018/19: £2.1m) and gains on revaluation of fixed assets of £1.3m (2018/19: £0.4m). At the provision of service line the Council showed a net deficit of £2.4m (2018/19: Surplus of £3.8m). At year end the Council had usable reserves of £27.8m (31 March 2019: £25.3m) and unusable reserves of £91.8m (31 March 2019: £89.1m). • We did not identify any significant risks 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 Narrative 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, and understand our proposed changes will be made by management.
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 is below the threshold for WGA reporting.

Paul Hewitson

Audit Director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

As a result of regulatory change in recent years, the role of an Audit Committee has significantly expanded. We set out here a summary of the core areas of Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.

- Review of external audit findings, key judgements, level of misstatements.

- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate risk committee).

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Your control environment

What we consider when we plan the audit

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Responsibilities of management

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Committee

As explained further in the Responsibilities of the Audit Committee slide, on page 5, the Committee is responsible for:

- Reviewing the internal control and risk management systems (unless expressly addressed by separate risk committee).
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

As stakeholders tell us that they to wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. It is intended that going forward we will look to place an increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

Reliance on controls	In future, we will seek to explore the potential to rely on the most important controls, particularly IT controls, that are relevant to critical business processes. In accordance with forthcoming revisions to ISAs, we will assess inherent risk and control risk associated with accounting estimates, and seek to test controls relevant to key estimates.
Performance materiality	We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate.

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment

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

We have not identified any further changes as a result of the Covid-19 pandemic or subsequent to publishing our planning report.

Determine materiality

When planning our audit we set our materiality for the audit at £1.22m based on 2% of gross income. We updated our materiality based on year-end outturn to £1.08m (2018/19: £1.21m). We report to you in this paper all misstatements above £53k (2018/19: £61k).

Scoping

Covid-19 consequences have impacted our work. Details are included on pages 8 to 10. There have been no other changes to the scope of our work as set out in the audit plan which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report. No additional significant risks have been identified since our Audit Plan.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks 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.

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 on pages 18 and 19.

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.

Our audit explained (continued)

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 pages including: • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment (page 16) • Narrative reporting • 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

Our audit explained (continued)

Covid-19 pandemic and its impact on our audit (continued)		
	Potential Impact on annual report and financial statements	Audit response
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and requires specific disclosure in the financial statements.	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. We understand that the Council is disclosing the material uncertainty in the updated accounts and this leads to an Emphasis of Matter in our audit opinion.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility.	We have engaged with the Lancashire County 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.
Expected credit losses	The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	No issues in relation to this have arisen from our audit work.

Our audit explained (continued)

Covid-19 pandemic and its impact on our audit (continued)		
	Potential Impact on annual report and financial statements	Audit response
Covid-19 related income received pre year end	• There was one main receipt of income related to Covid-19 that was received pre 31 March 2020: • **Covid-19 LA Support grant.** This was the first tranche of £1.6bn passed out to Local Authorities by MCHLG on March 27 2020. Wyre Borough Council received £60k. This grant was not ring-fenced and was 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 statement of accounts. • The remaining Covid-19 related income receipts received after the year end will be considered as part of the 2020/21 audit.
Narrative and other reporting issues	The following areas need to be considered by local authorities as having being impacted by the Covid-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty; the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities	We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.

Significant risks
Dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations	Page no.
Completeness and cut-off of service line expenditure	✓	DI	Satisfactory	●	12
Property Valuations	✗	DI	Satisfactory	●	13
Management override of controls	✓	DI	Area for improvement identified	●	15

Overly prudent, likely to lead to future credit − − ● + + Overly optimistic, likely to lead to future debit.

Controls approach adopted

DI Assess design & implementation

Significant risks (continued)

Completeness and cut-off of service line expenditure

Risk identified

The UK auditing standards presume a risk of revenue recognition due to fraud that can be rebutted by the auditor. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut-off of service line expenditure. We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed (such as Housing Benefit expenditure).

There is an inherent fraud risk associated with the recording of expenditure in order for the Council to report a more favourable year-end position.

There is a risk that the Council may materially misstate expenditure through manipulating the year end position in order to report a more favourable outturn.

Deloitte response

- We have obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of service line expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed);

- We performed focused testing in relation to the completeness and cut-off of service line expenditure (excluding the areas set out above); and

- We reviewed and challenged the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded service line expenditure.

Deloitte view

Based on the work completed to date, we have no concerns that the accounts are materially misstated in respect of expenditure cut-off.

Significant risks (continued)

Valuation of property assets

Risk identified

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

There is therefore a risk that the value of property assets materially differ from the year end fair value.

The Council held £125m of Property, Plant and Equipment (PPE) at 31 March 2020. The figures involved are therefore material. Revaluation adjustments in 2020 totalled an upward revaluation of £2.0m.

Deloitte response

- We have obtained an understanding of the design and implementation of key controls in place around the property valuation, and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;
- We assessed the Council’s response to the findings raised in the 2019 audit;
- We reviewed a sample of revaluations performed in the year, assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- We reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated;
- We used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council’s assumptions on its assets values between April 2019 and Year end; and
- We tested a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Deloitte view

Based on the work completed to date we are satisfied the valuations prepared by the valuer are appropriate and not materially misstated, however we draw your attention to the next page where we discuss the material uncertainty identified by the valuer.

Through our work we identified that an error had been made in the elimination of depreciation upon the revaluation of property assets. This error was wholly limited to the analysis included within the Property, Plant and Equipment note and had no impact on either the reporting Net Book Value of Property assets or the reserves of the Authority. Management have corrected for the identified error in the updated financial statements.

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:

"The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020. This has impacted global financial markets and led to severe travel restrictions being implemented by many countries.
Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.
Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.
Consequently, less certainty – and a higher degree of caution – should be attached to our valuations than would normally be the case.
Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep this valuation under frequent review."

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

Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. We have discussed with management regarding the need to include a detailed disclosure within the accounts, and appropriate disclosure has now been included.

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 5 which describe the effects of the uncertainties created by the coronavirus (Covid-19) pandemic on the valuation of the Authority's property portfolio and property investments held within the pension scheme.*
As noted by the Authority's valuer, and the valuer engaged by the trustees of the pension scheme, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the property portfolio and property investments held within the pension scheme at the balance sheet date.
Our opinion is not modified in respect of these matters."

Deloitte view

We have made a recommendation to management as part of our comments on the financial statements regarding their disclosure on Covid-19. We are satisfied that appropriate disclosure of the material uncertainty is now included within notes 5, 13, 15, and 39.

Significant risks (continued)

Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk for all entities. 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.

The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness and cut-off of service line expenditure and the Council’s property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte Response

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 obtained an understanding of the design and implementation testing of the controls in place for journal entries and have identified an opportunity for improvement to the control environment implemented by management.

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 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 reviewed the accounting estimates for biases that could result in material misstatements due to fraud. We note from our testing to date that overall the areas requiring a higher degree of 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 the work performed to date we have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed. However we have raised recommendations around controls as more fully described in Page 18.

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

As part of our planning procedures we did not identify any significant risks or areas of focus in respect of the Council’s use of resources. Following comments raised with us by members we conducted enquiries into the Council’s policies and procedures around business case preparation and investment decision making. Whilst our enquires identified that there was scope for improvement to the documentation and arrangements we were satisfied that the arrangements currently in place were sufficient to address the risks inherent in the decisions being based upon them. We have however made a recommendation that these arrangements are kept under review.

As part of our year-end audit procedures we did not identify anything of significance and we did not identify any areas of risk from our review of post year-end events.

Deloitte view

Whilst we have some minor queries outstanding, 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, Wyre Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

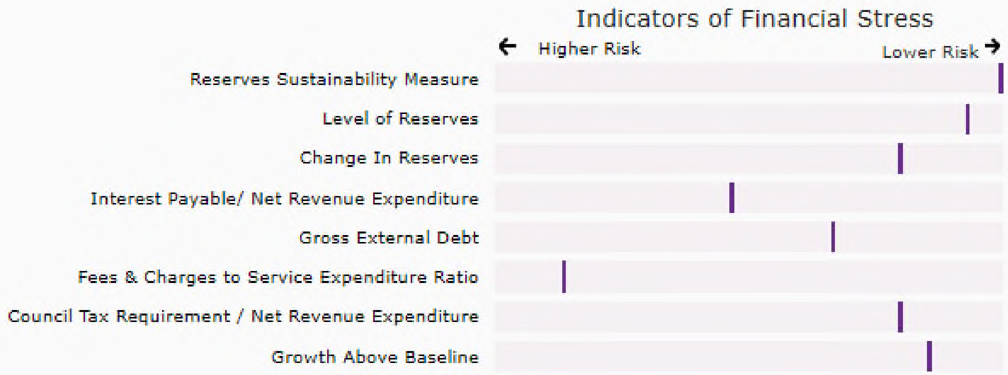
Financial sustainability

Covid impact on 2020/21

Due to the timing of the Covid-19 pandemic there was limited impact on the Council's income and expenditure for the financial year currently under audit. However, as the committee will be well aware it is having a significant impact on the Council's operations and performance in 2020/21. Based on the Ministry of Housing, Communities & Local Government ("MHCLG") Local authority Covid-19 financial management information reporting data, during August Local Authorities were forecasting to incur additional Covid-19 related expenditure of £5.24bn in 2020/21 and to suffer a loss in income of £5.99bn over the same period. In relation to the cost increases, the largest expected pressure was in Adult Social Care which comprised £2.30bn to the total. For lost income the three main components were Business rates (£1.61bn), Council Tax (£1.56bn) and Sales, fees and charges (£2.01bn). To date the government has allocated £3.7bn of emergency funding to local authorities but this still leaves a significant gap which will present a challenge for the Council and will likely be an area which we need to focus upon in our value for money work in 2020/21.

Wyre Borough Council's position

At the start of the 2019/20 year, when compared to its nearest neighbour in the CIPFA Financial Resilience Index it was considered to be relatively low risk in most areas, in particular around reserves and sustainability. During the year to 31 March 2020 the Council's useable reserves grew from £25.3m to £27.8m, while unusable reserves grew from £89.1m to £91.8m



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	8.67	100.00	100.00
Level of Reserves	23.28%	238.35%	261.90%
Change In Reserves	-25.70%	69.20%	155.40%
Interest Payable/ Net Revenue Expenditure	0.00%	0.71%	38.03%
Gross External Debt	£0k	£1,559k	£116,167k
Fees & Charges to Service Expenditure Ratio	13.74%	18.44%	45.64%
Council Tax Requirement / Net Revenue Expenditure	46.93%	75.29%	96.19%
Growth Above Baseline	24.00%	45.00%	128.00%

The Fees & Charges to Service Expenditure ratio is indicating higher risk, with a ratio of 18.44%. We understand that management attribute this to restrictions on what can be levied in fees and charges and that there remains a commitment to monitor the levels of fees and charges relative to CIPFA nearest neighbours. Based upon further analysis comparing Wyre to its geographical neighbours (taken to be the District Councils within the Lancashire Region) it can be see that Wyre compares favourably suggesting a localised cultural norm biased towards a lower proportion of service expenditure being covered by fees and charges (see page 18).

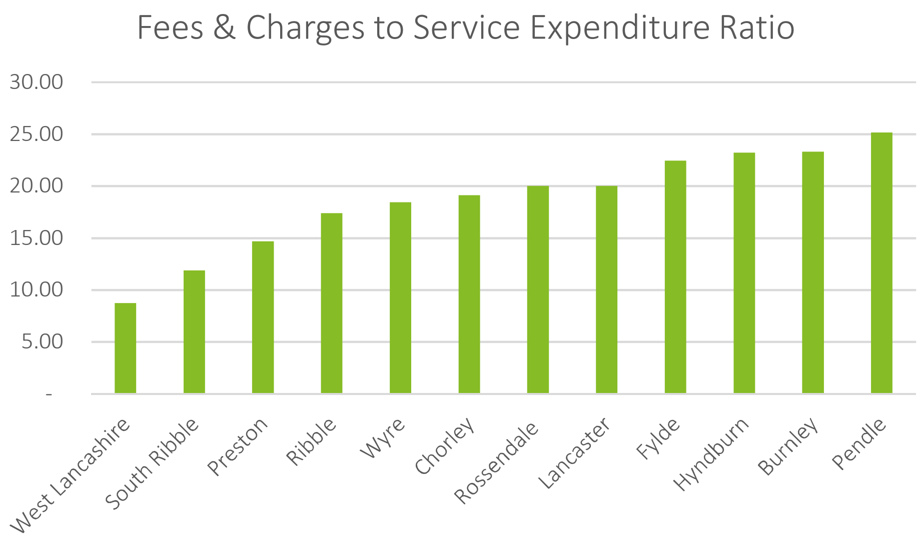
Although the indicator for Interest Payable to Net Expenditure is showing risk towards the middle of the range this is compared to a generally very low risk cohort of authorities.

Financial sustainability

Fees & Charges to Service Expenditure Ratio

Included below is data extracted from the CIFPA financial resilience index for Wyre's geographic neighbours (Burnley, Chorley, Fylde, Hyndburn, Lancaster, Pendle, Preston, Ribble Valley, Rossendale, South Ribble, and West Lancashire). It can be seen from this analysis that Wyre appear 5th out of 12 and are insignificantly different from the Lancashire average of 18.7%

We welcome management's statement that opportunities are taken to monitor the level of fees and charges levied and suggest that analysis such as the financial resilience metric may provide useful context to members when considering proposals made by management.



Your control environment and findings

Control insights and areas for management focus

Area of observation	Deloitte recommendation	Management response and remediation plan
IT environment observations	In the prior year we identified a number of minor observations regarding the IT environment which we communicated in our previous report. A number of our observations remain unresolved and we recommend the authority continues to monitor progress against them.	A quarterly IT Risk Review group has been set up which involves the Head of ICT, internal audit and is chaired by the Director of Communities. This group reviews ICT risks and areas for improvement. It will pick up the outstanding recommendations and include them in their action plan for 2021/22 and the Senior auditor will feedback to the Director of Resources on progress made quarterly.
Property Valuation	The valuation reports are prepared by a suitable qualified valuer, however there is no review of those valuations by another suitably qualified valuer. It is best practice that valuations are subjected to peer review however we recognise that this may be difficult to achieve in a small team.	As the Council has a very small team it is difficult to achieve this recommendation. Finance officers provide check and challenge on a 'reasonableness test' basis. The issue will be considered as part of a future restructure in the team.
Property Valuation	The CIPFA code requires investment properties to be valued annually, however we understand a desktop review is performed annually but full revaluation if only performed every three years. Investment property should be subject to formal revaluation (even if just formally documented desktop valuation) annually.	We agree that the valuer will be asked to carry out at least a formally documented desktop revaluation annually.
Property Valuation	We have identified and communicated to management a range of individually minor improvements that can be made to the content of the communications between the valuer and the finance team, for example the SLA and the final report.	We agree to review the current approach with the new internal valuer and adopt any necessary changes.

Your control environment and findings (continued)

Control insights and areas for management focus

Area of observation	Deloitte recommendation	Management response and remediation plan
Property Valuation	We have identified and communicated to management a range of individually minor recommendations regarding the methodology and approach to property valuations.	**We agree to review the current approach with the new internal valuer and adopt any necessary changes.**
Journals	We understand that it has previously been reported to the Audit Committee that journals are posted without prior authorisation being given by a second, independent and ideally more senior member of the finance team. We also understand that management believe that any risk associated with this approach is effectively mitigated by the regime of budget monitoring and review of outturn. It is our view however that review of the budget variances and review of outturn cannot fully mitigate the risk since such a control is prone to both confirmation bias and anchoring to the expected outcome (i.e. if the journals posted falsely bring outturn in line with budget/expectations the efficacy of such a control approach is reduced). We therefore recommend that management reconsider how this risk may be further mitigated through strengthening of the control environment in a manner which is commensurate with the residual risk.	Whilst there is no independent authorisation of journals entered, each finance officer is responsible for entering their own journals and no-one outside the team has the access to enter them. We feel there are sufficient controls in place to prevent/detect inappropriate journal entries including: • Regular budget monitoring both within the finance team and by spending officers supported by monthly monitoring reports. • Specific subjective monitoring undertaken by the finance team e.g. analysis of various types of income and expenditure e.g. training, salaries, utility costs, periodic income from property, vehicle costs etc. These are maintained historically and year-to-year comparisons carried out. • Any reallocation of budget is subject to controls and each virement has to be completed and authorised over the threshold. • The revised estimates and closure programme involve a full review of all codes including a detailed review by the Director of Resources/Head of Finance. Cross-checking of budgets by senior team members also carried out. • Head of Finance as part of the closure process verifies all balance sheet codes prior to signing them off. • A variance report is produced at year end highlighting the differences between budget and actual and this is published in the Exec summary and is supported by a Q&A document illustrating the reasons for variances or changes in expenditure from year to year. A similar process is undertaken at Revised estimates to inform the budget setting. • A report showing overspends greater than £10 is produced and circulated to the finance team for review and comment. This also picks up variances on income codes greater than £10.

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

Based on our work completed to date it is expected 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 emphasis of matter paragraph in relation to property valuations on page 13 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).

Based on our work to date, our conclusion on the Council's arrangements is unmodified.

Other reporting responsibilities

The Narrative 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 are awaiting an updated set of accounts to review, however, based on our work to date, our conclusion in this area is satisfactory.

Other matters

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

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation - Future sustainability and risks to this posed by Covid-19.	We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit. We have considered the sustainability narrative including the requirement to discuss and evaluate the impact of Covid-19 within this assessment. We have concluded satisfactorily on this matter. Our assessment of the impact of Covid-19 can be seen from pages 8 to 10.
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 guidance, is misleading, or is inconsistent with other information from our audit.

Maintaining audit quality

Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit	• Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability) • Deloitte fully supports an independent review into the role of auditors • The Government's Brydon Review will consider UK audit standards and how audits should evolve
Would it be better to have audit only firms?	• Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit. • Our investment in audit innovation, training and technology is greater because of the multidisciplinary model
Is the current audit market uncompetitive?	• We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders • There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering • The audit profession has engaged with the Competition and Markets Council with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies
Independence and conflicts from other services	• Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients • Deloitte invests heavily in systems, processes and people to check for potential conflicts • We have governance in place to assess any areas of potential conflict, including where required to protect the public interest • Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)
Deloitte	• Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest • Our Impact Report and Transparency Report are available on our website https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html • Our response to the latest AQR report is on page 28.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

- Results of our work on key audit judgements and our observations on the Narrative Report.

What we don't report

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

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

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

The scope of our work

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

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

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

Deloitte LLP

Newcastle | February 2021

Appendices

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements decrease net assets by £0.1 million.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m
Misstatements identified in current year				
"Goodwin" impact on the pension liability	[1]	0.1	(0.1)	
Total				

[1] The pension scheme actuary has made no allowance for the impact of a legal case "Goodwin" on the pension liability, on the basis that it is not material. We estimate the impact of the Goodwin judgement to be to increase the liabilities by 0.1%, or £0.1m.

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.

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 property valuations, completeness 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 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 FRC 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 £37,470 (2018/19: £37,470). The only non-audit fee is the Housing Benefit Assurance Process, with a fee of £8,000 (2018/19: £8,000).
Non-audit services	In our opinion there are no inconsistencies between FRC's 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.

AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.
https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports