



# Wyre Council

Update report to the Audit Committee on the 2020/21 audit  
Issued on 15 September 2023 for the meeting on 26 September 2023

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# Introduction

## The key messages in this report

I have pleasure in presenting an update to the Audit Committee on the progress of our 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in June 2021.

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 our Statement of Accounts audit**

Our financial statements audit is progressing, however we do still have a number of procedures to complete before we are able to conclude our audit. The following are the principal outstanding areas that we are required to work through in order to complete our audit:

- Completion of property valuations testing;
- Completion of Covid-19 agency grants testing;
- Completion of collection fund balances testing;
- Completion of infrastructure asset disclosure testing;
- Completion of financial statement disclosure testing;
- Completion of our internal quality assurance procedures;
- Receipt and review of amended financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2021 through to signing.

We are working constructively with the Council to complete our work and we will provide the Committee with a verbal update on our progress at the meeting on 26 September 2023. 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.

### **Status of our Value for Money audit**

Our Value for Money work is on-going, and will be reported in our Auditor's Annual Report, within the three months of the signing of the audit opinion as specified under the National Audit Office Auditor Guidance Note 3.

We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources. We intend to state in our opinion on the statement of accounts that our Value for Money work is on-going.

### **Conclusions from our testing**

Our audit work is still ongoing and, at the time of writing this report, we do not have any significant issues to highlight to the Audit Committee. However, on completion of our procedures we will provide the Audit Committee with our final ISA260 report, which will update on our audit findings.

# Introduction

## The key messages in this report (continued)

### Narrative Report & Annual Governance Statement

- We are in the process of reviewing the Council’s Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.
- Currently, we have suggested a number of minor changes to management for consideration. We will review the updated Narrative Report and Annual Governance Statement on receipt from management and report back to the Audit Committee any further observations.

### Duties as public auditor

- We did not receive any 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 NAO issued guidance on the 26 July 2023 confirming that WGA returns were no longer required for 2020/21.

### Infrastructure Assets and change in risk assessment

There have been a series of issues raised with CIPFA and the Department for Levelling Up, Housing and Communities (DLUHC) with regard to the treatment of infrastructure assets in local authority Statement of Accounts. Following a series of discussions at national technical groups, which were attended by Deloitte, and also several consultations that were overseen by CIPFA and DLUHC, the following has been issued:

- **CIPFA Code Update:** On 29 November 2022 the CIPFA code was updated to remove the requirement for authorities to disclose gross book value and accumulated depreciation for infrastructure assets.
- **Statutory Instrument:** A statutory instrument was laid before parliament on 30 November 2022, and came into effect on 25 December 2022, with the main purpose to allow authorities to make the assumption that any infrastructure asset additions recognised are replacing components that have been fully depreciated.
- **CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution:** This was released on 12 January 2023 and provides example disclosures and examples of how both the Statutory Instrument and the Code update impact on the accounting for infrastructure assets.

Based on the changes to the guidance and also the issues identified across the local government sector in relation to the accounting for infrastructure assets, the decision was made to make infrastructure assets an other area of audit focus. No other changes in risk assessment have occurred since we issued our audit update report in September 2021.

# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

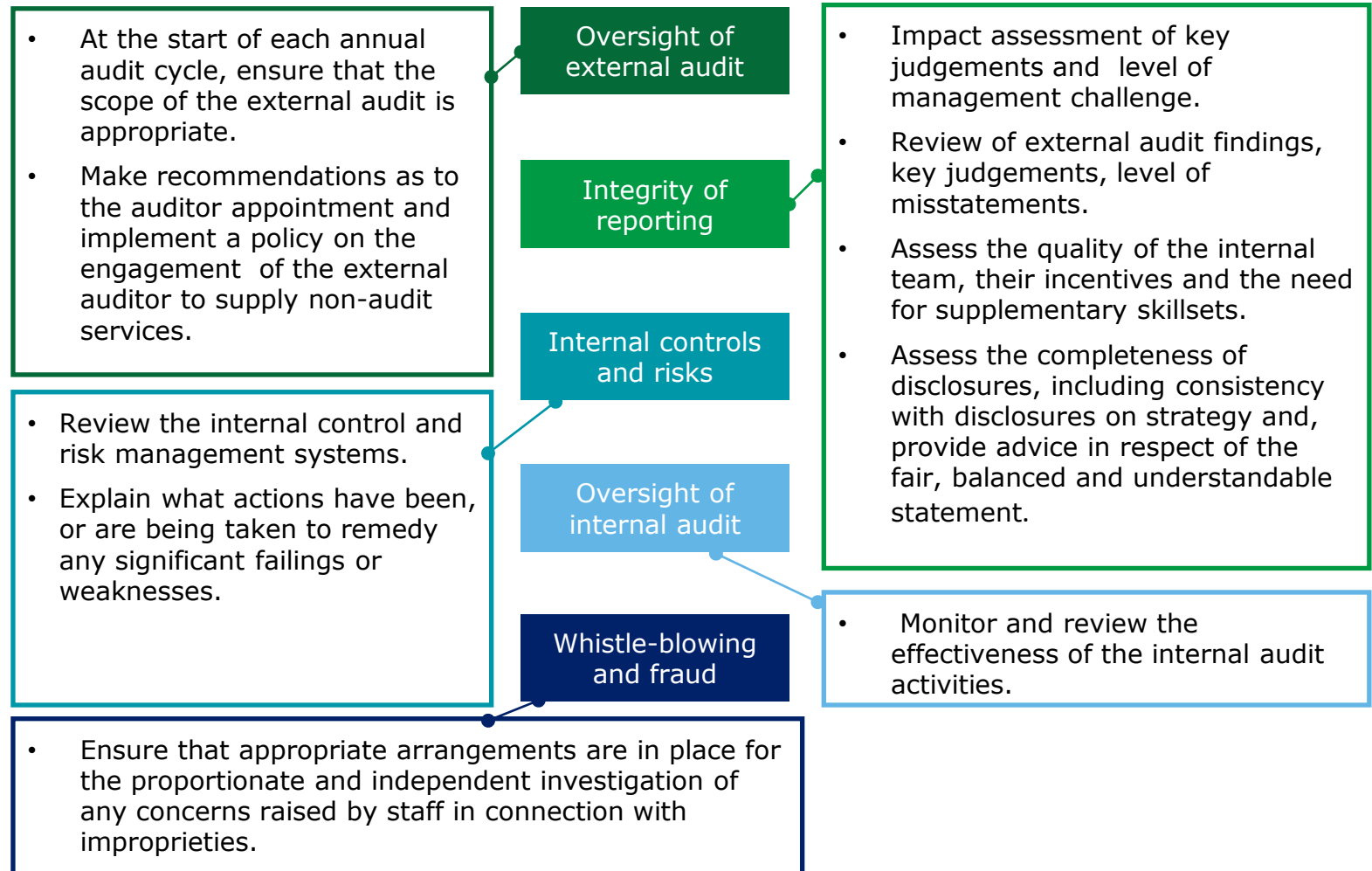
Why do we interact with the Audit Committee?



We use this symbol to highlight areas of our audit where the Audit Committee needs to focus attention.

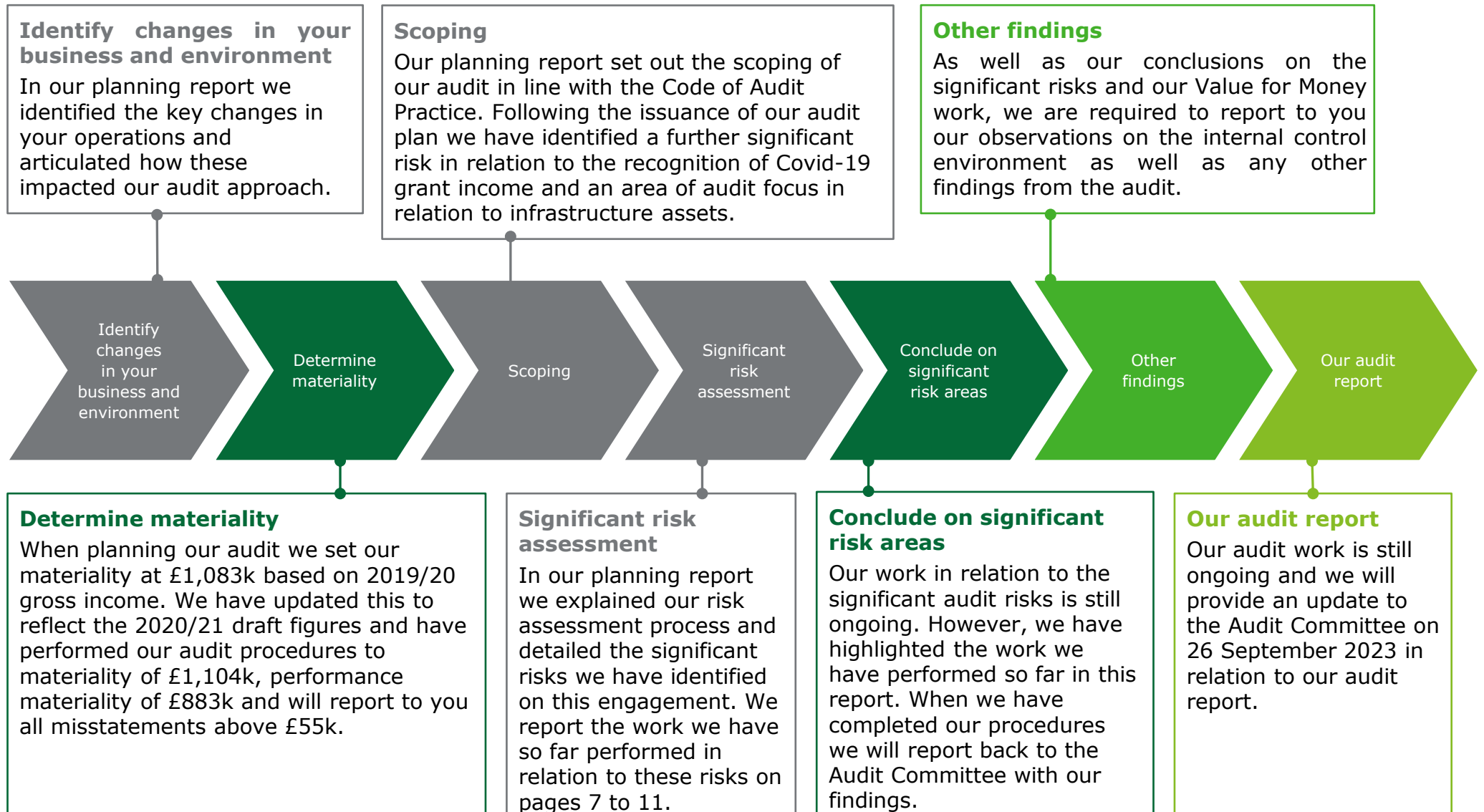


As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there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



















# Our audit explained

We tailor our audit to your organisation and your strategy



# Significant risks

## Significant risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement/estimate	Management paper expected	Slide no.
Recognition of Covid-19 grant income			D+I			8
Inappropriate capitalisation of expenditure			D+I			9
Property valuations			D+I			10
Management Override of Controls			D+I			11

D+I: Assessing the design and implementation of key controls



Low level of management judgement/estimate



Moderate level of management judgement/estimate



High level of management judgement/estimate

# Significant risks

## Recognition of Covid-19 grant income



<b>Risk identified</b>	<p>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.</p> <p>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.</p> <p>We have pinpointed the significant risk to the completeness and accuracy of the funding recognised in the Council's financial statements and the completeness and accuracy of the agency arrangement disclosures, where the Council has acted as an agent on behalf of Central Government in administering Covid-19 grants.</p> <p>The key judgements for management are assessing:</p> <ul style="list-style-type: none"><li>• Any conditions associated with the Covid-19 grants; and</li><li>• Whether the Council is acting as a principal or agent in administering the Covid-19 schemes, and how this is subsequently recognised in both the Comprehensive Income and Expenditure Statement and Balance Sheet.</li></ul>
<b>Deloitte response and challenge</b>	<p>We are in the process of completing the following procedures:</p> <ul style="list-style-type: none"><li>• Assessed the design and implementation of the controls in relation to the accounting treatment of all Covid-19 related funding;</li><li>• Reviewing management's paper on the accounting treatment of each significant grant claim and challenging the appropriateness of the approach adopted;</li><li>• Tested a sample of Covid-19 grants and confirming these have been recognised in accordance with any applicable conditions, including appropriate recognition in both the Comprehensive Income and Expenditure Statement and Balance Sheet;</li><li>• Considering the adequacy of disclosures in the financial statements, including accounting policies and where relevant critical accounting judgement and key sources of estimation uncertainty disclosures;</li><li>• Testing the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:<ul style="list-style-type: none"><li>• Transactions have been excluded from the Comprehensive Income and Expenditure Statement;</li><li>• 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</li><li>• The net cash movement at 31 March 2021 is included in the financing activities in the Cash Flow Statement.</li></ul></li></ul>
<b>Conclusion</b>	<p>We are in the process of testing the agency disclosure. At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. We will provide a verbal update to the Audit Committee on 26 September 2023.</p>



# Significant audit risks (continued)

## Inappropriate capitalisation of expenditure



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<b>Risk identified</b>	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. One way that councils can manipulate the expenditure outturn is through the inappropriate capitalisation of revenue expenditure. Capital additions have increased by £1,342k in the year, and as a result we believe that if the Council were to inappropriately record expenditure it would be through the inappropriate capitalisation of revenue items.
<b>Deloitte response and challenge</b>	We have completed the following procedures: <ul style="list-style-type: none"><li>• Reviewed the design and implementation of the controls in place in relation to the recognition of capital expenditure; and</li><li>• Sample tested capital additions in year, in order to assess whether the value disclosed is accurate and the expenditure meets the definition of capital expenditure.</li></ul>
<b>Conclusion</b>	We have completed our procedures set out above and have no matters to report to the Committee.

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# Significant audit risks (continued)

## Valuation of property assets



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<b>Risk identified</b>	<p>The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.</p> <p>The Council held £41,455k of property assets (including land) in Property, Plant and Equipment at 31 March 2021, which is a decrease of £1,311k, when compared to 31 March 2020.</p> <p>The Council also held £11,050k of Investment Properties at 31 March 2021, which is an increase of £4,277k, when compared to 31 March 2020.</p> <p>The Council updates the valuation of its properties using a rolling revaluation programme. In 2020/21, the Council engaged its internal valuers to perform a full valuation of properties due for valuation under the Council's 5 year rolling programme of valuations. The effective date of this valuation was 1 April 2020.</p> <p>For Investment Properties, the Council instructs its internal valuer to perform a full revaluation on an annual basis.</p>
<b>Deloitte response and challenge</b>	<p>We are in the process of completing the following procedures:</p> <ul style="list-style-type: none"><li>• Reviewed the design and implementation of the controls in place in relation to property valuations;</li><li>• Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;</li><li>• We have engaged our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets;</li><li>• Testing a sample of key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;</li><li>• Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;</li><li>• Considered the impact of Covid-19 on the valuation of property assets to assess whether, where necessary, the Council has reflected the impact in their valuations; and</li><li>• Reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.</li></ul>
<b>Conclusion</b>	<p>We have not completed all the procedures set out above. We are waiting for the report from our internal valuation specialists and are in the process of testing the valuation inputs. At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. We will provide a verbal update to the Audit Committee on 26 September 2023.</p>

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# Significant audit risks (continued)



## Management override of controls

### **Risk identified**

In accordance with ISA 240 (UK), management override of controls is a significant risk due to fraud 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 of accrued 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 and challenge**

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that:

- The Council's results throughout the year were projecting an overall underspend in operational areas; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

We have completed the following procedures:

- We have considered the overall control environment and 'tone at the top'.

#### **Journals**

- We have tested the design and implementation of controls in relation to journals and accounting estimates.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

#### **Significant transactions**

- At the time of writing the report, we have not identified any material unusual transactions outside the normal course of business of the Council.

# Significant audit risks (continued)

## Management override of controls



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**Deloitte response and challenge****Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of property assets and the valuation of the pension liability, as discussed elsewhere in this report.
- We have reviewed accounting estimates for biases that could result in material misstatements due to fraud.
- We have tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures include comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

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**Conclusion**

We have completed our procedures set out above and have no matters to report to the Committee.

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# Other areas of audit focus

## Pension liability valuation



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### **Risk identified**

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Lancashire County Council Pension Fund, which is part of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2021, this totalled £38,588k. As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated.

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### **Deloitte response and challenge**

We have completed the following procedures:

- Agreed the actuarial report for the Council produced by Mercers, the scheme actuary, to the Statement of Accounts pension disclosures.
  - Reviewed the disclosures made in the Statement of Accounts against the requirements of the Code.
  - Liaised with the audit team of Lancashire County Council Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council.
  - Assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
  - Reviewed and challenging the assumptions made by Mercers.
  - Assessed the reasonableness of the Council's share of the total assets of the scheme by reference to the Pension Fund financial statements.
  - Reviewed the accounting of the upfront pension contribution made by the Council to assess whether this is in line with the requirements of the CIPFA Code.
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### **Conclusion**

The Council made an upfront payment of employer pension contributions for 2021/22 and 2022/23 of £2,273k. This was included in debtors in the draft accounts however under IAS19, contributions should be recognised as part of the pension asset upon payment. Therefore it has been amended to reduce the pension net liability by £2,273k

We have completed the procedures set out above and have no further matters to bring to the attention of the Committee.

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# Other areas of audit focus (continued)

## Infrastructure assets



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**Risk identified**

Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured at historical cost, in line with the requirements of the CIPFA Code.

The CIPFA Code requires that where a component of an asset is replaced:

- the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and
- the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

In 2020/21, auditors identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS due to deficits in the information held by authorities. This has resulted in the risk of Council's overstating the value of the infrastructure assets held, as assets that have been disposed of are not written out, and also inappropriate useful economic lives being used.

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**Deloitte response and challenge**

We are in the process of finalising the following procedures:

- Reviewed the full listing of the Council's infrastructure assets to ensure that the underlying records are sufficiently disaggregated and it is possible to identify what each asset recognised in the Statement of Accounts relates to;
- Reviewed and challenging the useful economic lives used by the Council, including obtaining supporting documentation to support the lives used and comparing the lives to the expected lives as included in the CIPFA bulletin; and
- Reviewing the disclosures included in the revised Statement of Accounts to ensure they are in line with the requirements of the CIPFA Code update, CIPFA Bulletin and the Statutory Instrument.

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**Conclusion**

At the time of writing this report, the only outstanding procedure is the review of the updated disclosure.

We have identified one issue as part of our audit procedures. This relates to the useful lives assigned to the infrastructure assets not being consistent with the supporting information from the engineers. The impact of this change is a decrease in the annual depreciation charge of £923k. Under the statutory instrument the Council are not required to amend this retrospectively, therefore, this has been amended in year.

We will provide a verbal update to the Audit Committee on 26 September 2023.

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# Value for money

Our work is on-going and will be reported in our Auditor's Annual Report

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## **Value for Money requirements**

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
  - Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
  - If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
  - Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
  - Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.
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## **Status of our work**

Our Value for Money work is ongoing, and will be reported in full in our Auditor's Annual Report, within three months of the date of our audit opinion as specified under the National Audit Office Auditor Guidance Note 3. We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

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# Your control environment and findings

## Insights and recommendations

During the course of our audit we have identified a number of insights and recommendations, which we have included below for action.

	Observation	Deloitte recommendation	Management Response
Journals	<p>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).</p>	<p>We 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.</p>	<p>Whilst there is no independent authorisation of journals entered, each finance officer is responsible for entering their own journals and no-one outside of the team has access to enter them. We feel there are sufficient controls in place to prevent/detect inappropriate journal entries including:</p> <ul style="list-style-type: none"><li>- regular budget monitoring both within the finance team and by spending officers supported by monthly monitoring reports.</li><li>- specific subjective monitoring undertaken by the finance team e.g. analysis of various types of income and expenditure (i.e. training, salaries, utility costs, periodic income from property, vehicle costs). These are maintained historically and year-to-year comparisons carried out</li><li>- any re-allocation of budget is subject to controls and each virement has to be completed and authorised over the threshold</li><li>- the revised estimates and closure programme involve a review of all codes including a detailed review by the Director of Resources/Head of Finance. Cross-checking of budgets by senior team members is also carried out.</li></ul>



# Your control environment and findings

## Insights and recommendations (continued)

	Observation	Deloitte recommendation	Management Response
Related parties	We have identified that some of the declaration of interest forms are not up to date and some have information missing.	We recommend that all the declaration of interest forms are renewed annually to ensure all information is up to date.	This recommendation has been noted and councillors and senior officers are required to complete a related party form as part of the year end process.
PPE Existence	We have identified that there is no formal exercise for PPE physical verification. Periodic verification will occur on an ad-hoc basis and is predominately the responsibility of the Estates team and the budget holders.	We recommend a formal physical asset verification process is implemented.	The recommendation has been noted. A process is being implemented that provides for an Estates Surveyor/Assistant to visit each asset at least once every six months; with inspections recorded electronically.
Business rates overpayments	We have identified that for business rates overpayments, the Council have been unable to provide a breakdown of this balance for the purposes of our testing. The root cause of the issue has been identified as the inability to run backdated reports from the Northgate system. As part of year end close down procedures, the values from a live report are used and inputted. However, no copy of this live report has been retained.	We recommend that the Council retains all reports used in the preparation of the financial statements.	This recommendation has been noted and additional reporting requirements have been included as part of the Northgate system year end process.

# Your control environment and findings

## Insights and recommendations

During the course of our audit we have identified a number of insights and recommendations, which we have included below for action.

	Observation	Deloitte recommendation	Management Response
IT environment observations	<p>Our IT specialists have identified a number of minor observations regarding the IT system which we have communicated to management.</p> <p>These cover areas such as IT security, user access reviews and data leakage controls.</p>	<p>We recommend the Council reviews its IT systems and policies in light of these observations and consider whether they are satisfied with the safety and security of the IT environment.</p>	

# Our audit report

## The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.



### **Our opinion on the financial statements**

Our audit is ongoing with a number of judgemental/significant areas of the audit still to be completed. We will update the Audit Committee when we have completed our procedures on the form of the Audit Opinion.



### **Emphasis of matter and other matter paragraphs**

Our audit is ongoing with a number of judgemental/significant areas of the audit still to be completed. We will update the Audit Committee when we have completed our procedures on the form of the Audit Opinion



### **Value for Money reporting by exception**

Our opinion will note that our Value for Money work is ongoing and will be reported in our Auditor's Annual Report.



### **Irregularities and fraud**

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019

# Your annual report

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

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>• Organisational overview and external environment;</li> <li>• Governance;</li> <li>• Operational Model;</li> <li>• Risks and opportunities;</li> <li>• Strategy and resource allocation;</li> <li>• Performance;</li> <li>• Outlook; and</li> <li>• Basis of preparation</li> </ul>	<p>We are in the process of completing the following:</p> <ul style="list-style-type: none"> <li>• assessing whether the Narrative Report has been prepared in accordance with CIPFA guidance;</li> <li>• reviewing the Narrative Report to assess whether it is consistent with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</li> </ul> <p>Based on our initial review we have suggested a number of minor changes to the Narrative Report, which management are considering. We will review the updated Narrative Report on receipt from management and report back to the Audit Committee any further observations.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We are in the process of completing the following:</p> <ul style="list-style-type: none"> <li>• assessing whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA guidance, is misleading, or is inconsistent with other information from our audit.</li> </ul> <p>Based on our initial review we have suggested a number of minor changes to the Annual Governance Statement, which management are considering. We will review the updated Annual Governance Statement on receipt from management and report back to the Audit Committee any further observations.</p>

# 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 (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Statement of Accounts and Narrative Reporting.
- Our internal control observations.
- Other insights we have identified from our audit.

### 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.

### Use of this report

This report has been prepared for the 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.

### 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 Audit Committee.

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 work under the Code of Audit Practice in respect of Value for Money arrangements.

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

**Deloitte LLP**

Newcastle upon Tyne | 15 September 2023

# 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 £142k and increase other comprehensive income by £142k. We also list below those misstatements corrected by management.

		Debit/ (credit) surplus on provision of services £k	Debit/ (credit) in net assets £k	Debit/ (credit) OCI/Reserves £k
<b>Unadjusted misstatements identified in current year</b>				
Pensions – Goodwin ruling	[1]	-	(142)	142
<b>Total adjusted misstatements</b>		-	<b>(142)</b>	<b>142</b>

[1] The Goodwin ruling relates to a legal challenge made against the Government in respect of unequitable benefits for male spouses of female members of pension schemes (in respect of service earned before 1998). As part of the Council's pension valuation, this ruling has not been taken into consideration, and therefore no allowance for this ruling has been included in the Council's Statement of Accounts. We have engaged our actuarial specialists, who have estimated that the inclusion of an allowance for the Goodwin ruling would increase the Council's pension liability by £142k.

# 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:

<b>Independence confirmation</b>	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and our objectivity is not compromised.
<b>Fees</b>	Details of the agreed fees for services for the period have been presented below.
<b>Non-audit services</b>	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of 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.
<b>Relationships</b>	We have no other relationships with the Council, its directors, and senior managers, and have not supplied any services to other known connected parties.

The professional fees earned by Deloitte in the period from 1 April 2020 to 31 March 2021 are as follows:

	<b>2020/21</b>	<b>2019/20</b>
	<b>£</b>	<b>£</b>
Code – Audit fee	37,470	37,470
Value for Money	TBC	-
<b>Total audit fees*</b>	<b>37,470</b>	<b>37,470</b>
Housing Benefit Assurance Process fee	-	8,000
<b>Total non audit fees</b>	<b>-</b>	<b>8,000</b>
<b>Total fees</b>	<b>37,470</b>	<b>45,470</b>

\*The fees noted above do not reflect the impact of the additional procedures we have been required to perform as a result of the Covid-19 pandemic and the additional VFM procedures required in year due to the changes in the VFM guidance. We will agree a fee variation with management after the completion of the audit in relation to these areas and report this back to the Audit Committee for comment.



# Our other responsibilities explained

## Fraud responsibilities and representations



### 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 Audit Committee 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 are not aware of any fraud or suspected fraud that affects the Council.

We have also asked the Audit Committee to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



### Audit work performed:

We identified the risk of fraud in the recognition of COVID-19 grant income, the incorrect capitalisation of revenue expenditure and management override of controls as significant audit risks.

During course of our audit, we have had discussions with management, those charged with governance and Internal Audit.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

### Concerns:

Our audit procedures are still ongoing and we will report fully to the Audit Committee in our final ISA 260.



# Value for Money deadline extension



## Letter to the Audit Committee highlighting Value for Money deadline extension

Dear Audit Committee

The National Audit Office issued guidance to auditors on 16 April 2021 setting out a revised timetable for completion of work on arrangements to secure value for money. This revised timetable reflected the impact of the ongoing pandemic on preparers and auditors of accounts. That guidance established that the Auditor's Annual Report should be published within three months of the signing of the Audit Opinion. Therefore we have not yet issued our Auditor's Annual Report. Under the 2020 Code of Audit Practice, we are required to provide this letter setting out the reasons for the Auditor's Annual Report not being issued by 30 September 2021.

Yours faithfully

Paul Hewitson  
Audit Director



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