

Wyre Borough Council

Report to the Audit Committee on the audit of the year
ended 31 March 2019

Issued 23 July 2019 for the meeting on 30 July 2019

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Director introduction

The key messages in this report:

I have pleasure in presenting our report to the Audit Committee for the 2019 audit. I would like to draw your attention to the key messages of this paper:

Status of the audit

Our audit is substantially complete subject to completion of the following principal matters:

- finalisation of notes testing including cash flow and collection fund;
- review of events since 31 March 2019 up to signing of accounts;
- finalisation of the Statement of Accounts;
- completion of internal quality assurance procedures including follow-up queries arising from these; and
- receipt of signed management representation letter.

Conclusions from our testing

The key judgements in the audit process related to:

- Completeness and cut-off of service line expenditure – as 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;
- Property valuation – as the determination of property valuation is highly subjective and there is a risk the value of property assets materially differ from the year-end value.
- Management override of controls – in particular judgements taken by management during the year around accounting estimates, any significant transactions and the journals process.

Based on our work completed to date we have not identified any errors or omissions resulting in material audit adjustments or disclosure deficiencies.

Discussion of audit insights and recommendations, and of unadjusted immaterial misstatements, are discussed on pages 12 and 15 respectively. These do not prevent us issuing a clean audit opinion based on our procedures completed to date.

Director introduction

The key messages in this report (continued):

Financial sustainability and Value for Money	<p>We have not identified any significant risks in relation to Value for Money. We are satisfied that the Council has made proper arrangements for securing financial resilience and economy, efficiency, and effectiveness in its use of resources. Value for Money is discussed further on page 11.</p>
Narrative Report & Annual Governance Statement	<p>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.</p> <p>The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.</p> <p>We have no matters to raise with you in respect of the Narrative Report.</p>
Duties as public auditor	<p>We did not receive any queries or objections from local electors this year.</p> <p>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.</p>
Whole of Government Accounts	<p>The Council is not a sampled component for WGA reporting.</p> <p>We are required to perform testing on the Council's WGA submission, checking its consistency to the audited financial statements and reporting our findings to the National Audit Office (together with our audit opinion and key issues from our audit). This will be completed later in the year.</p>

Paul Hewitson
Lead audit director

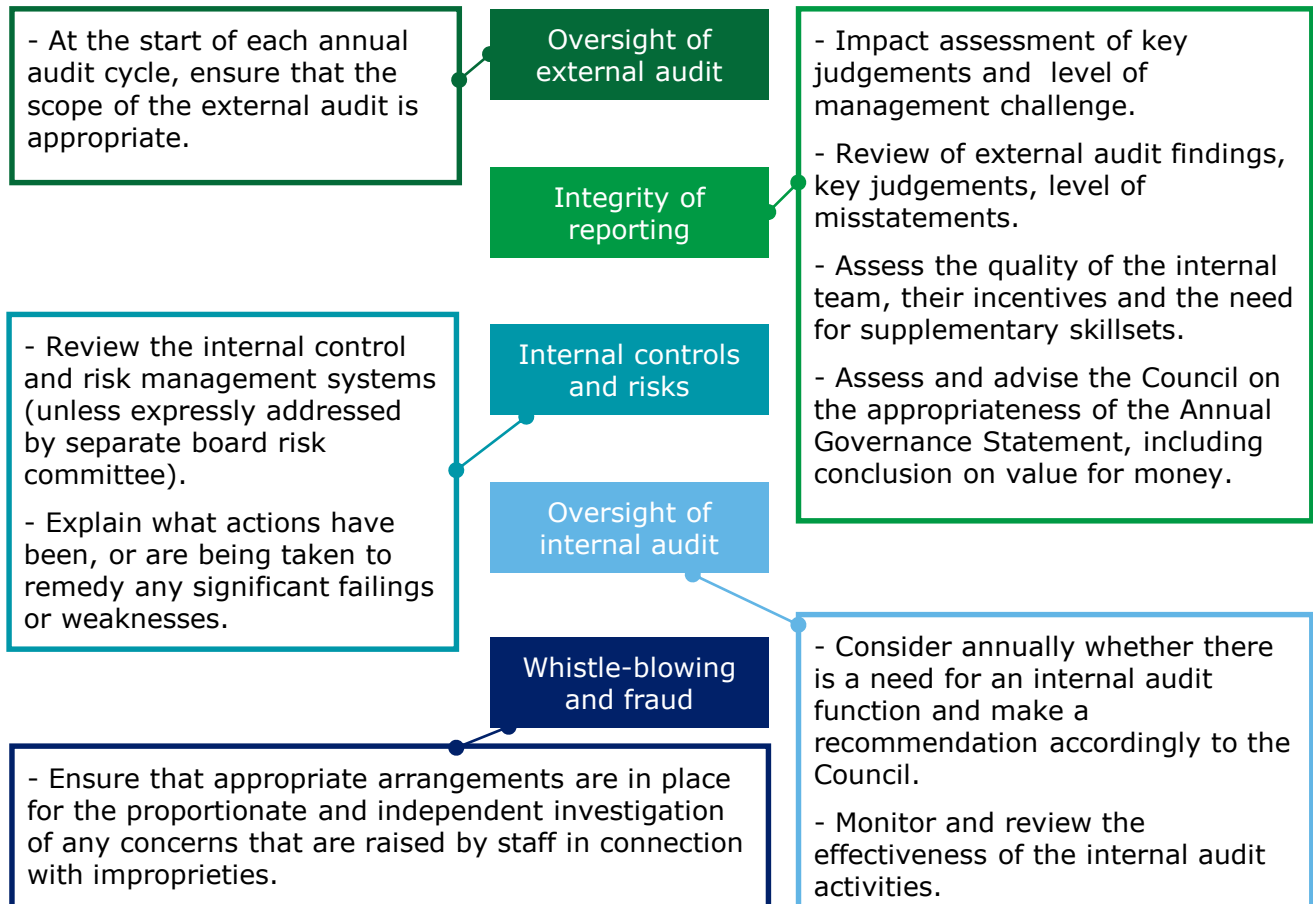
Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

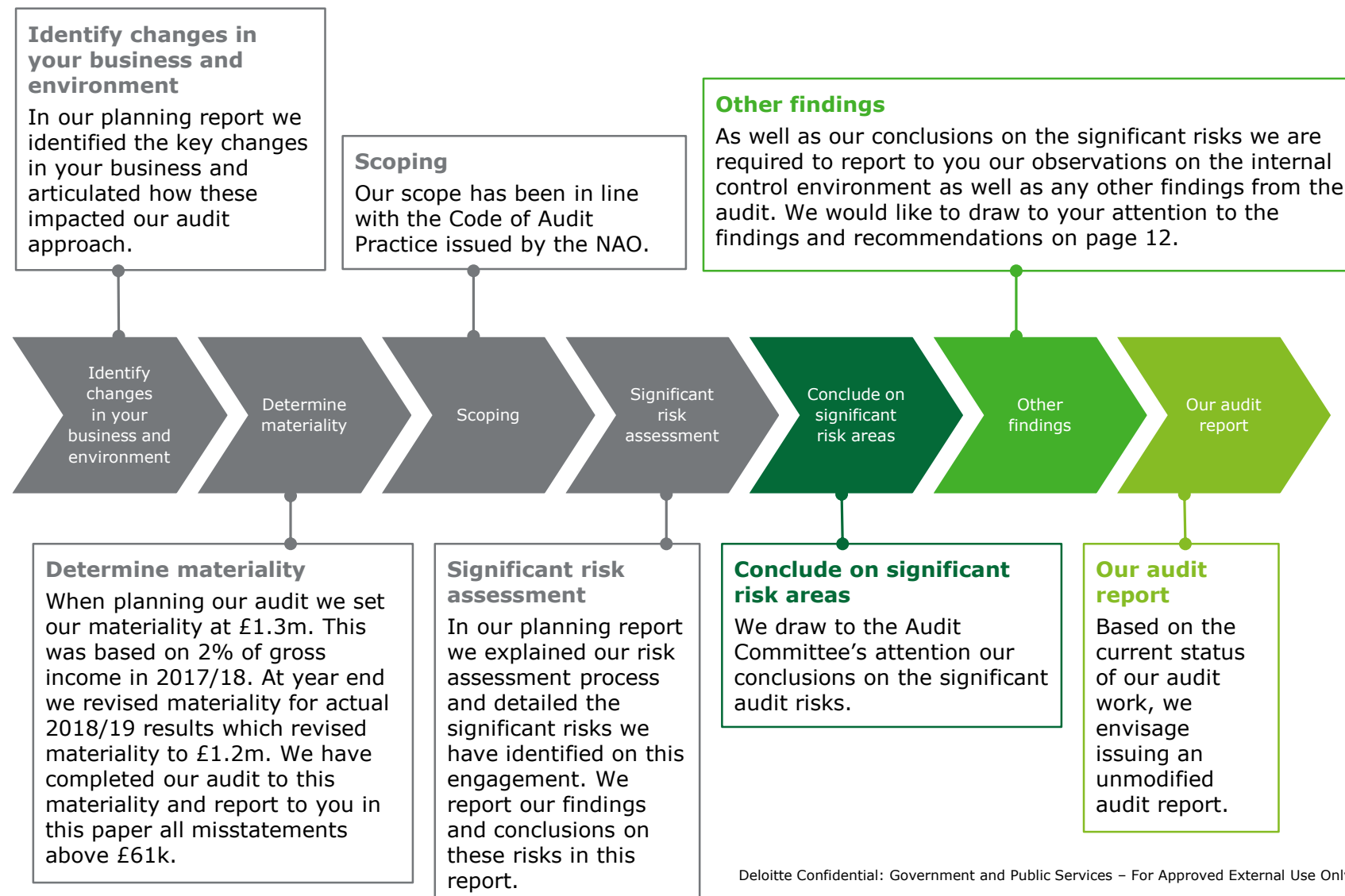


As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there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











Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls	Conclusion on D&I work	Consistency of judgements with Deloitte's expectations	Slide no.
Completeness and Cut off of service line expenditure			D+I	Satisfactory		8
Property valuations			D+I	Satisfactory		9
Management override of controls			D+I	Satisfactory		10

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

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

Significant risks

Completeness and cut off of service line expenditure

Risk identified	<p>Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. 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).</p> <p>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.</p> <p>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.</p>
Deloitte response	<p>We 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);</p> <p>We performed focused testing in relation to the completeness and cut-off of service line expenditure (excluding the areas set out above) including detailed reviews of provisions and accruals; and,</p> <p>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.</p>
Conclusion	<p>We have identified no errors in our testing of completeness and cut off of service line expenditure, and have noted no issues with managements judgements in relation to this balance. We are therefore satisfied that the financial statements are not materially misstated in relation to this risk.</p>

Significant risks

Property valuations

Risk identified	<p>The council held £124m of property plant and equipment as at 31 March 2018, the opening position for the current period.</p> <p>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 property, plant, and equipment revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>In the prior year, to 31 March 2018, revaluation movements had a £3.2m impact on the book value of property, plant and equipment assets.</p> <p>There is therefore a risk that that the value of property assets materially differ from the year end fair value.</p>
Deloitte response	<p>We tested 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;</p> <ul style="list-style-type: none">• We reviewed revaluations performed in the year, and 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 Authority to assess the risk that assets not subject to revaluation are materially misstated;• We utilised our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its asset valuations as at 1 April 2018, as well as the assumptions on any movement in valuations between April 2018 and Year end; and• We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts.
Conclusion	<p>We identified several minor findings and recommendations around the valuation process which we have communicated to management. Some of these are discussed further on slide 12. These were not significant issues and we conclude that property valuations are not materially misstated.</p>

Significant risks

Management override of controls

Risk identified	<p>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.</p> <p>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.</p>
Deloitte response	<p>In considering the risk of management override, we have performed the following audit procedures that directly address this risk:</p> <ul style="list-style-type: none">• We tested the design and implementation of key controls in place around journal entries and key management estimates;• We risk assessed journals and selected items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas which we considered to be of increased interest;• We reviewed accounting estimates for biases that could result in material misstatements due to fraud; and• We obtained an understanding of the business rationale of significant transactions that we became aware of that are outside of the normal course of business for the Council, or that otherwise appeared to be unusual, given our understanding of the entity and its environment.
Conclusion	<p>We identified no issues in our testing of management override. We are satisfied the financial statements are not materially misstated due to management override.</p>

Value for Money

We have not identified any VfM significant risks

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.

Deloitte risk assessment

- We obtained an understanding of the Council's Medium Term Financial Plan, and budget for 2019/20.
- We considered the appropriateness of the governance arrangements and due diligence performed around the coastal defence project.
- We discussed the Council's arrangements with senior council officers.
- We reviewed the Council's draft Narrative Report, Annual Governance Statement and relevant Council papers and minutes.
- We considered the Council's financial results for the year and the assumptions in the budget for future years.
- We considered matters identified by the National Audit Office as potential value for money risks for Councils for 2018/19.

Deloitte view

Based upon the work performed in our risk assessment, we did not identify any significant audit risks and have identified no significant concerns regarding the Council's arrangements to secure economy, efficiency, and effectiveness.

Other significant 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, data leakage controls and disaster recovery policies.</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>	<p>Any recommendations not already implemented will be included in the ICT Service Plan to be taken forward by the new shared Head of ICT and Digital Services.</p>
Assessment of assets not subject to formal revaluation in the year.	<p>As permitted by the Code the Authority revalues operational land and buildings on a five year rolling cycle. The Code further requires that, where assets are subject to revaluation management must take steps to satisfy themselves that the carrying value of assets at the balance sheet date are not materially different to the fair value at that date; this obligations extends to both assets revalued in the year and assets revalued in previous years under the 5 year programme. Through discussion with the valuer, we understand, whilst a formal evaluation of the carrying value of assets not subject to revaluation in the year is not documented, the valuer is familiar with all of the assets and undertakes a broad consideration of market conditions, movement in relevant indices and implications of building condition surveys each year and the impact, or lack thereof, that these factors will have upon the valuation of Authority's assets.</p>	<p>We recommend the valuer more formally documents his considerations and evaluation of the key factors and provides management, as part of the overall revaluation report, with a statement of assurance that the carrying values of the assets remain only immaterially different from his estimate of the fair value at that date; this statement should set out the key factors considered and any critical judgements made.</p>	<p>A statement of assurance as described in the recommendation will be sought from the valuer as part of the overall revaluation process in future years.</p>

Other significant findings

Insights and recommendations (continued)

	Observation	Deloitte recommendation	Management Response
Property valuation observations	<p>We have identified a number of minor observations and recommendations around the property valuation exercise and communicated these to management. These have not led to material misstatement of the accounts.</p> <p>These cover such areas as impairment reviews of assets not valued in the current year, and the review process of the work of the professionally qualified in-house valuer.</p>	<p>We recommend the Council reviews its valuation policies and processes in light of these observations and consider building them into the valuation process going forward.</p>	<p>As a small district council, capacity is limited in the team to undertake some of the recommendations including having more than one valuer engaged in the process. It is envisaged that the addition of a trainee in the team will help to increase resources allowing us to work towards greater involvement by a second valuer.</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 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.
- 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 Audit Committee and 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the 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 the other procedures performed in fulfilling our audit plan.

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

Deloitte LLP
Newcastle | July 2019

Appendix 1: Audit adjustments

Adjusted and 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 surplus on the provision of services by £567k, decrease net assets by £339k and increase other comprehensive income by £228k. 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
Unadjusted misstatements identified in current year				
Pensions – McCloud adjustment	[1]	567	(339)	(228)
Adjusted misstatements identified in current year				
Property valuation miscalculation	[2]	(160)	160	
Gross up of balance sheet for leisure centre operator balances	[3]		206/(206)	
Investment recorded as cash and cash equivalents	[4]		6,000/(6,000)	
Pension prepayment disclosure – current year	[5]		1,700/(1,700)	
Pension prepayment disclosure – prior year	[5]		3,398/(3,398)	
Total adjusted misstatements		(160)	160	

[1] After year end, it became clear that the McCloud court judgement required consideration by the Actuary in their pension calculations. Wyre commissioned their actuary to perform a detailed review of the impact on the pension figures during the audit, and the results of this were found to be immaterial, and therefore Wyre have not updated their accounts in respect of this.

[2] Through discussion between our valuation experts, DRE, and Wyre's in-house valuer, it was noted and agreed that there was a numerical error in the calculation of the valuation of on asset, resulting in the asset being undervalued in the accounts by an immaterial amount of £160k.

[3] Wyre has both debtor and creditor balances with the operator of 5 leisure centres in Wyre. These should be netted off in the accounts, which are currently grossed up by £206k. This has no impact on the surplus for the year or any funds.

[4] A 6 month fixed term investment was recorded within cash and cash equivalents. However as the fixed term period was longer than 3 months and the cash could not be accessed early without incurring financial penalty, this is not cash and should be shown as investment instead. Wyre have corrected the accounts in respect of this.

[5] Wyre made a prepayment against the Local Government Pension Scheme in prior year of £3.4m, of which £1.7m was the outstanding prepayment at the current year end. Within the pension note to the accounts, the prepayment was shown as decreasing pension liabilities, when it should be increasing pension assets. This had no impact on any other areas of the accounts.

Appendix 2: 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 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 entity or group.

We have also asked the Committee 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 report we identified the risk of fraud in completeness and cut off of service line expenditure and management override of controls as a key audit risk for your organisation.

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

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

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns were noted around the representations from management or our work conducted around the risk of fraud in the financial statements.

Appendix 3: 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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.

Fees

There are no non-audit fees other than the £8k Housing Benefit work.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Appendix 3: Independence and fees (continued)

The professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	37,470
Total audit	37,470
Audit related assurance services	8,000
Total assurance services	8,000
Total fees	45,470



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