



## **Western Riverside Waste Authority**

Audit planning report to the Members of the Authority for the year ending 31 March 2020

Issued on 18 August 2020

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# Introduction

## The key messages in this report:

I have pleasure in presenting our planning report to the Members of the Authority for the 2020 audit, our second as your external auditors. I would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

### **Scope of our work**

Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General.

The Code sets the overall scope of the audit which includes an audit of the accounts of the Authority and work to satisfy ourselves that the Authority has made proper arrangements to secure value for money (VFM) in its use of resources. There have not been any changes to the Code, itself, and therefore the scope of our work is broadly similar to the scope of work set for your auditor in the prior year.

Our responsibilities as auditor, and the responsibilities of the Authority, are set out in "PSAA *Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies*", published by Public Sector Audit Appointments Limited.

### **Significant Audit Risks**

Our initial risk assessment has identified the following significant audit risks, discussed further on pages 11-14;

- Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.
- Revenue and expenditure recognition
- Valuation of property assets

We will update our risk assessment as more information becomes available on the impact of COVID-19 upon the authority and its financial position as at 31 March 2020 (discussed further on pages 5-6).

### **Other Areas of Audit Focus**

Other matters which we have not currently identified as significant audit risks for the 2019/20 audit, but which will be areas of audit focus (and whose risk we will reassess as more information becomes available), include::

- Pension Liability
- Financial sustainability disclosures

Details of these are presented on page 15 to 16

# Introduction (Continued)

## The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

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

The Code and supporting auditor guidance note require us to perform a risk assessment and to carry out further work where we identify a significant risk.

Our risk assessment to determine whether there are any further significant risks is ongoing, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from the work of regulators.

This has been discussed further on pages 17;

### **Brexit**

Despite Britain formally leaving the European Union on the 31<sup>st</sup> January 2020, negotiations surrounding the future economic relationship with the EU are still ongoing, and will affect the on-going economic climate. This has potential impact on the skills and staff shortages following Brexit, depending on any immigration implications.

Our audit plan does not include any risks or procedures in respect of the impact upon the Authority, whether on VfM arrangements, budgets, or more widely. We will update the Authority if any risks are identified as the eventual circumstances of the UK's exit become clear.

**Ben Sheriff**  
Engagement Lead

# 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 authority'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 authority'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 investments, capital programmes, and resilience of the community including partner organisations and charities.

## Actions

We therefore expect a thorough assessment of the current and potential future effects of the COVID-19 pandemic including:

- A detailed analysis across the authority'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);
- The authority's financial position, financial sustainability, and where relevant 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.

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### Impact on the authority

We will consider 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.

### Impact on annual report and financial statements

We will consider the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:

- Principal risk disclosures;
- Impact on property, plant and equipment;
- Impact on pension fund investment measurement and impairment;
- Events after the reporting period and relevant disclosures;
- Narrative reporting;
- Impairment of non-current assets;
- Allowance for expected credit losses.

### Impact on our audit

We will consider the impact on the audit including:

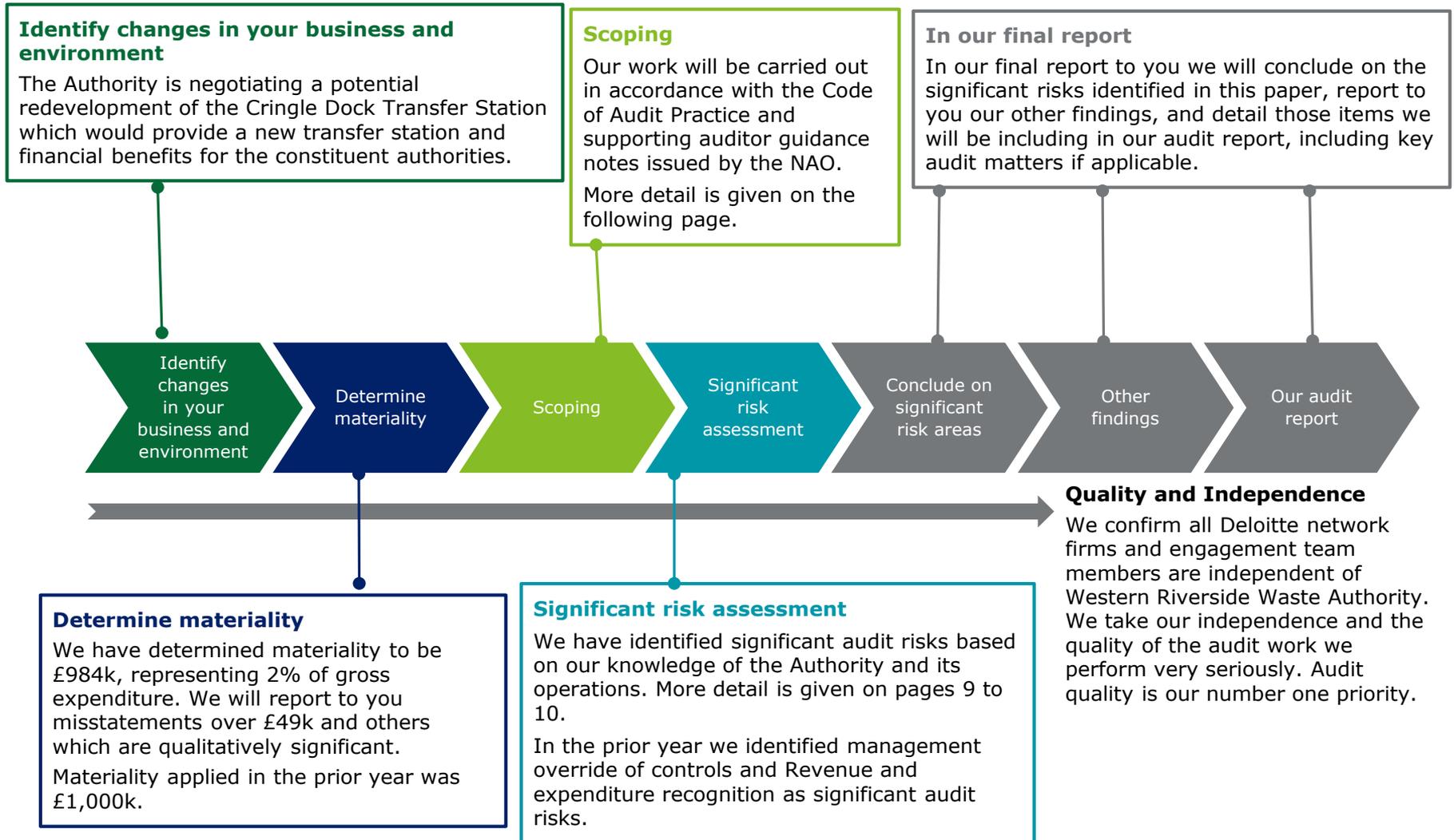
- Resource planning;
- Timetable of the audit;
- Impact on our risk assessment;
- Logistics including meetings with entity personnel.

# COVID-19 Impact on annual report and financial statements

<b>Impact on property, plant and equipment</b>	<p>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. We would expect that this will impact the authority, will require specific disclosure in the financial statements, and will result in an Emphasis of Matter in our audit report.</p> <p>The authority needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the authority should consider with their valuers the impact that COVID-19 has had on current value. The Authority will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2020.</p>
<b>Impact on pension fund investment measurement</b>	<p>As a result of the COVID-19 pandemic pension fund investments have been subject to volatility. It is important to engage early with custodians and fund managers 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.</p>
<b>Expected credit losses</b>	<p>The authority will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.</p>
<b>Events after the reporting period and relevant disclosures</b>	<p>Local authorities began to see the most substantial impacts of COVID-19 in March 2020 and therefore before the end of the reporting period. The authority will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. The authority will need to make significant judgements about these decisions and the nature of the COVID-19 pandemic will mean that they will need to continually review and update these assessments up to the date the accounts are authorised for issue.</p>
<b>Narrative and other reporting issues</b>	<p>The following areas will need to be considered by local authorities as having being impacted on by the COVID-19 pandemic.</p> <ul style="list-style-type: none"><li>• Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, and resources.</li><li>• Reporting on the impact of financial pressures and financial sustainability in the narrative report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.</li><li>• Reporting judgements and estimation uncertainty, the Authority will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.</li></ul>

# Our audit of the statement of accounts explained

## We tailor our audit to your Authority



# Scope of work and approach

## We have the following areas of responsibility under the Code of Audit Practice

### **Opinion on the Authority's financial statements**

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB").

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").
- The Authority is not expected to be in scope for audit work on Whole Government Account.

### **Opinion on other matters**

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the statement of accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Authority is required to publish alongside the Statement of Accounts.

In reading the information given with the financial statements, we take into account our knowledge of the Authority, including that gained through work in relation to the body's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources.

### **Value for Money conclusion**

We are required to provide a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We carry out a risk assessment to identify any risks that, in our judgement, have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. The risk assessment enables us to determine the nature and extent of further work that may be required. This means that if we do not identify any significant risks, there is no requirement to carry out further work.

We also consider the impact of findings of other inspectorates, review agencies and other relevant bodies on their risk assessment, where they are relevant and available.

**Our responsibilities as auditor, and the responsibilities of the Authority, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA**

# Scope of work and approach (Continued)

## Our approach

### **Liaison with internal audit**

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements. We are not planning to take reliance on the work of internal audit, it will however be considered as part of our risk assessment.

We will review their reports issued as part of the 2019/20 internal audit programme. We consider the findings from their work and where significant control weaknesses are identified, we consider the impact on the scope of our own work.

### **Approach to controls testing**

For controls considered to be 'relevant to the audit', our work involves evaluating the design of these controls and determining whether they have been implemented ("D & I").

We do not expect to place reliance on the operating effectiveness of controls in the current year.

### **Materiality**

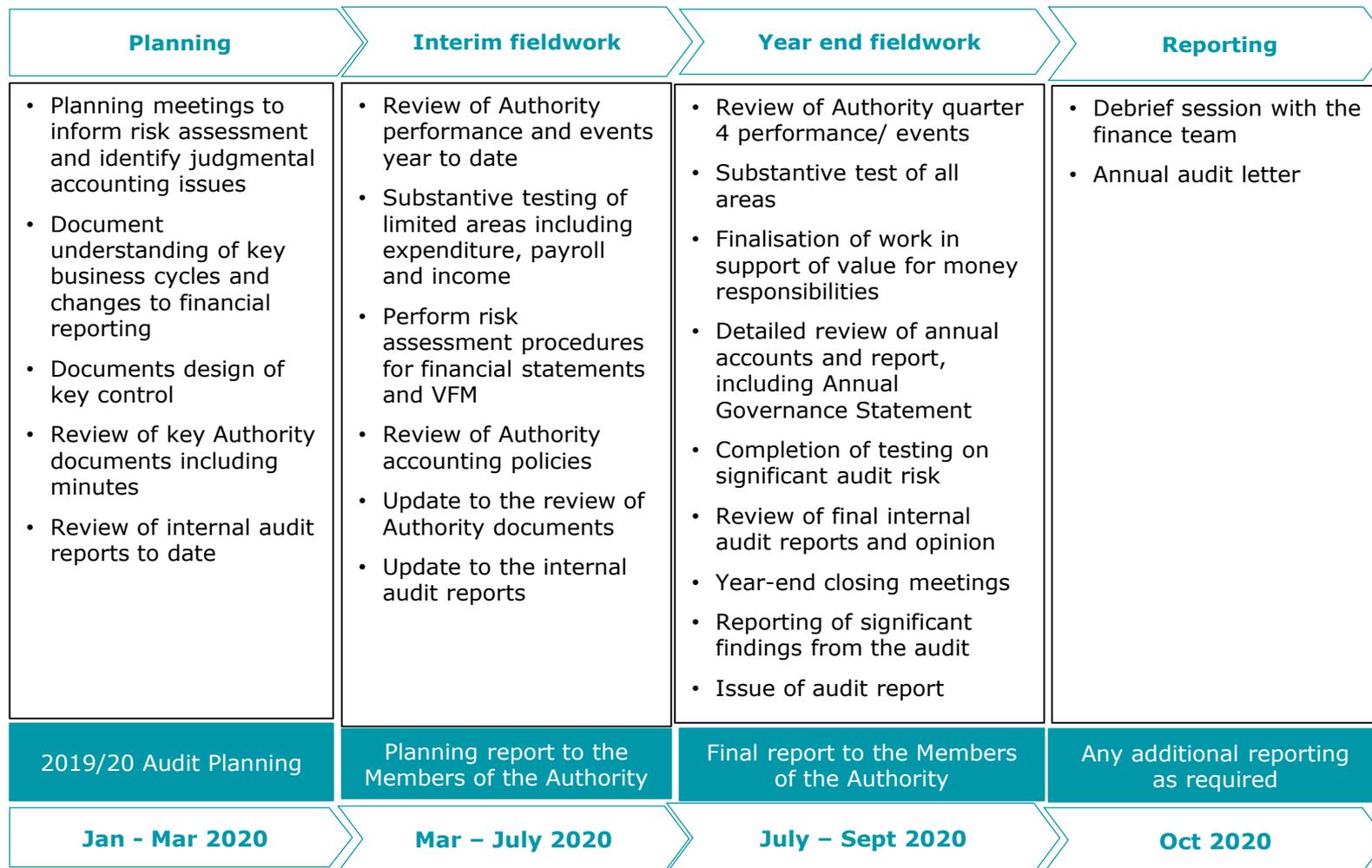
The audit partner has determined materiality as £984k, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements. We will report to you misstatements over £49k and others which are qualitatively significant.

We have used 2% of gross expenditure, as the benchmark for determining materiality as this is an area of focus for users of the accounts.

# Continuous communication and reporting

## Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



Ongoing communication and feedback

# Significant risks – statement of accounts

## Our risk assessment process

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

- the significant risks and uncertainties previously reported in the narrative report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

### Deloitte view

IAS 1 requires entities to make disclosures about the assumptions it has made about the future and other major sources of estimation uncertainty at the year end that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

If a matter does not meet this criterion, it should not be included in the disclosure on sources of estimation uncertainty.

We recommend the Authority re-look at whether the estimates it disclosed in the prior year meet this criterion.

The Code of Practice on Local Government Accounting requires the statement of accounts to include a narrative report which provides information on the authority, its main objectives and strategies and the principal risks that it faces.

### Prior year significant audit risks (financial statements)

- Management override of controls
- Revenue and expenditure recognition
- Valuation of property assets

### Changes in your business and environment

- The Authority is negotiating a potential redevelopment of the Cringle Dock Transfer Station which would provide a new transfer station and financial benefits for the constituent authorities.
- The adoption of IFRS16 has been deferred to 2021/22 when the Authority will adopt International Financial Reporting Standard 16 – Leases

### IAS 1 Critical accounting estimates

- Useful economic lives of property, plant and equipment
- Pension liability valuation

### Principal risk and uncertainties

- Ability to fund waste disposal costs and the potential subsequent pressure on the authority to seek short term cost savings
- Possible nuisance claims by new residents in relation to the redevelopment of the transfer stations
- Brexit impact on future finances
- Volatility of recycling rates

# Significant risk

## Management override of controls

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**Risk identified**

In accordance with ISA 240 (UK and Ireland) management override of controls is a presumed significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

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

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**Our response**

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

- We will risk assess journals and select items for detailed follow up testing. We do this by using data analytics profiling to identify journals which have characteristics of increased interest. We will then test the appropriateness of journal entries selected through this profiling activity, and other adjustments made in the preparation of financial reporting.
  - We will review accounting estimates for evidence of bias that could, in aggregate, result in material misstatements due to fraud. Other areas of estimation in addition to the above include provisions and estimation of depreciation based on a selection of useful economic lives.
  - We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
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# Significant risk

## Revenue and expenditure recognition

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### **Risk identified**

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. For the Authority, we consider this significant risk to be the validity, accuracy and completeness of the variable element of the revenue relating to the actual direct tonnage charged to the four constituents councils.

Given that revenue is driven by the volume of activity during the year, this risk is also linked to the recognition of expenditure. The Authority has a significant contract with Cory Limited for the provision of waste management services. The risk includes the accuracy and completeness of expenditure calculated by Cory and whether the Authority is accounting for expenditure appropriately and consistently in line with activity.

In 2019/20, the Authority approved a gross expenditure budget of £54.9m. Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals.

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### **Our response**

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

- We will obtain an understanding of and test the design and implementation of the key controls in place in relation to recording completeness of expenditure and accruals;
  - We will review the contract in place between the Authority and Cory Limited;
  - We will perform focused testing in relation to the completeness of revenue, expenditure and accruals;
  - We will review the accuracy of the expenditure calculated by Cory
  - As part of this focused testing, we will challenge any assumptions made in relation to year-end accruals;
  - We will also review expenses recorded in the final month of the year against previous year's trends to identify if there are any inconsistencies;
  - We will perform testing for unrecorded liabilities based on payments made and expenses recorded in the period after year end up to 30 days; and
  - In addition, we will review the year on year movement in expenditure and accruals and will investigate any significant movements.
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# Significant risk

## Valuation of Property assets

	Cost	Acc. Depreciation	NBV
2018/19	£63.8m	£3.9m	£59.8m
2017/18	£63.8m	£2.9m	£60.9m

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### Risk identified

The Authority held property, plant and equipment of £59.8m at 31 March 2019 which are required to be recorded at fair value determined as the existing use value (EUV) at the balance sheet date. Depreciated replacement cost is also used as an estimate of fair value for assets with no market-based evidence.

Assets are revalued on a regular basis to ensure that their carrying amount is not materially different from their fair value at the year end. The revaluation policy specifies that a full revaluation is carried out as a minimum every 5 years.

During the year management have concluded that there has been no material change in the Authority's property assets from the prior year and there will not be the need to perform any type of valuation.

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### Our response

- We will use our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Authority's property portfolio, including considering movements compared to those of other authorities performing valuations for 2019/20
- We will check whether any adjustments to the value of previously capitalised works are required and how these have been calculated.
- We will challenge management's assessment as to whether any impairment arises in respect of newly capitalised expenditure.
- We will also review and challenge management's judgements on not carrying out valuation for the year and assess its impact on the Authority's property asset.
- 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. We would expect that this will impact the Authority, will require specific disclosure in the financial statements, and will result in an Emphasis of Matter in our audit report.

# Other areas of audit focus

## Pension liability (LGPS)

	Pension Assets	Pension liabilities	Net pension deficit
2018/19	£8.1m	£11.4m	£3.3m
2017/18	£7.8m	£11.3m	£3.7m

### Risk description

The Authority participates in the Local Government Pension Scheme, administered by London Pension fund Authority.

As at 31 March 2019, the Authority had a £3.3m pension deficit on its balance sheet. Pension assumptions are a complex and judgemental area and the calculation is reliant on accurate membership data provided to the actuary.

We have thus identified this as an other area of audit focus to report to the Authority as a key area of management judgement.

### LGPS

For the LGPS (Local Government Pension Scheme), it is possible to identify Western Riverside Waste Authority portion of the assets and liabilities, and the Local Authority Accounting Code of Practice requires full disclosure of the Authority's share of the LGPS within its financial statements. There are a large number of judgments inherent in the calculation of the scheme liability, including future inflation rates and appropriate discount rates. Small movements in these rates can have a material impact. Additionally there are judgements implicit in allocating Authority's share of the assets of the scheme.

### Further risk assessment procedures and planned response

- We will carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data, assets and liabilities) using a developed methodology which takes into account factors such as an assessment of the actuary.
- We will also liaise with the scheme auditor on the results of their audit procedures on the scheme as a whole.
- We will consider the make-up of the pension assets and the extent to which the asset types have been valued based on observable market prices or using estimation and judgement in the valuation and consider the extent of uncertainty in the asset valuation and the impact on our approach.
- We scope our work, including the nature and extent of our actuarial specialists involvement, in a way which responds to this detailed risk assessment. Should our risk assessment change our overall audit approach in respect of testing pensions, we will notify the Committee.
- Upon the completion of the LGPS consultation which proposes changes to address the age discrimination rulings (McCloud etc) to bring the LGPS in line with the government's commitment to remove the differences in treatment from all public service pension schemes with similar protections. We will consider the impact of such changes on the Authority
- We will review the disclosure based on the IAS 19 report issued to the Authority's by the actuary and we will assess the competence and objectivity of the work of the actuary.

# Other areas of audit focus (continued)

## Financial sustainability disclosure

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**Risk identified**

The impact of COVID-19 is expected to result in significant additional costs for FY20/21. Although the Government intends to compensate Authority's for the impact of COVID-19, it is doubtful that this will extend to fully cover loss of income and any other longer term cost implications impacting on the Authority's own resources. Whilst additional funding has been provided to the most authorities, it is, to date, significantly less than the anticipated financial impact on the Authority.

Although Authorities are required to prepare their financial statements on a going concern basis under the CIPFA Code, they should also make appropriate disclosures in respect of uncertainties affecting their financial sustainability. In addition, if the Treasury officer considers that the Authority's expenditure, including proposed expenditure, is likely to exceed the resources available, then they are required to issue a section 114 notice, which, inter alia, places significant restrictions upon on-going expenditure.

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**Our response**

We will review management's financial sustainability considerations and conclusions to determine the reasonableness of the disclosures on the financial pressures due to Covid-19 pandemic, albeit in the context of the authority's ability to levy its costs upon councils. We shall specifically review the budget forecasts and perform analytical procedures to evaluate whether any matters impacting upon our responsibilities or requiring us to exercise any of our reporting powers.

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# Value for money conclusion

## Our risk assessment process and significant risks

We are required to provide a conclusion on whether the authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code and supporting auditor guidance note 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.

Our risk assessment to determine whether there are any further significant risks is ongoing, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from the work of regulators. We will also consider the arrangements in place regarding the refinancing and the potential redevelopments in our risk assessment.

Our risk assessment procedures include:

- Updating our understanding of the Authority's transformation programmes and the related considerations to achieve value for money;
- Reading the annual governance statement;
- Considering local and sector developments and how they impact on the Authority;
- Meeting with senior officers;
- Reviewing reports issued by internal audit;
- Reviewing other documentation of the Authority including budget setting reports, financial and operational performance monitoring reports;
- Reviewing reports issued by regulators;
- Where significant risks are identified we will perform additional procedures to address these risks. We have not currently identified any significant risks. If additional procedures require the support of subject matter experts this may have an impact on fees. We will discuss this with management in advance of any additional work required.

# 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 establish our respective responsibilities in relation to the audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our audit plan, including key audit judgements and the planned scope.

### Use of this report

This report has been prepared for the Members of the Authority, 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.

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

### What we don't report

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

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

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

A handwritten signature in blue ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

**Deloitte LLP**

St Albans 18 August 2020

# Appendices

# Appendix 1 - Fraud responsibilities and representations

## Responsibilities explained



### Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

### Our responsibilities:

- We are required to obtain representations from your officers regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the statement of accounts as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of management override of controls and completeness of expenditure as key audit risks for your organisation.

### Fraud Characteristics:

- Misstatements in the statement of accounts can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the statement of accounts is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.



### We will request the following to be stated in the representation letter:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - (i) officers;
  - (ii) officers who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the statement of accounts.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's statement of accounts communicated by officers, former officers, analysts, regulators or others.

# Appendix 1 - Fraud responsibilities and representations Inquiries

We will make the following inquiries regarding fraud:



## **Officers:**

- Officers assessment of the risk that the statement of accounts may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Officers process for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether officers have knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve officers from outside the finance function in our inquiries.

## **Internal audit**



- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

## **Those charged with governance**



- How those charged with governance exercise oversight of officers processes for identifying and responding to the risks of fraud in the entity and the internal control that officers have established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

# Appendix 2 - 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:

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## Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Authority and will reconfirm our independence and objectivity to the Authority for the year ending 31 March 2020 in our final report to the Members of the Authority.

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## Fees

The "scale fee" set by Public Sector Auditor Appointments Limited for the financial statement audit, including whole of government accounts and procedures in respect of the value for money assessment, is £12,058. Following the initial issues in the 2019 audit, we have agreed a fee variation of £27,000 in respect of the additional costs of the audit (primarily in respect of the Cory transaction accounting, property valuation and restatement issues, and quality of initial draft deliverables), which has been approved by management and PSAA.

While we acknowledge management's commitment to improvement in the financial reporting process, and would expect improvement compared to the 2018/2019, we consider that the scale fee is at present at a historic level that is not reflective of the cost of delivery of the audit of even a simple local authority in accordance with the requirements of auditing standards.

For 2020, we will be proposing fee variations for the authority reflecting:

- the minimum costs of delivery of any audit of a local authority, including in respect of property valuations and pensions;
- our experience of the cost of delivery of the audit;
- the areas of increased and/or additional accounting and audit complexity and risk arising from the COVID-19 pandemic; and
- wider factors impacting the cost of the delivery of the audit due to regulatory changes and requirements.

For 2021, there are on-going discussions with PSAA in respect of scale fees. We would highlight that we would expect there to be potentially significant fee increases reflecting a number of changes in 2021 including the requirements of the revised Code of Audit Practice in particular in respect of Value for Money, the increased requirements on audit of accounting estimates under the revised ISA 540, and wider regulatory changes increasing the cost of audit delivery (and in 2022 for the implementation of IFRS 16, Leases).

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## Non-audit fees

There are no non-audit fees.

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# Appendix 2 - Independence and fees (continued)

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

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**Independence monitoring**

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.

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**Relationships**

We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

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## Deferral of IFRS 16 Leases to 2021/22

The new leasing standard IFRS 16 Leases will replace IAS 17. Implementation has been deferred to the 2021-22 financial year.

The new standard eliminates the distinction between operating and finance leases for lessees and brings in a single approach under which all but low- value or short term (less than 12 months) leases are recognised. The distinction between operating and finance leases for lessors is maintained.

The Authority will need to:

- have arrangements for capturing information on leases and contracts; and
- recalculate lease liabilities for arrangements that have variable elements such as index-linked increases.

Successful implementation of the new standard will depend on the Authority collating and reviewing relevant information about their new and existing leases. This will require a significant exercise to collect and analyse relevant information and the Authority will need to have an effective project plan and timetable to prepare for implementation on a timely basis.

## Appendix 3 – Developments in financial reporting (continued)

Appendix

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### Local Government Pension Scheme (LGPS) – amendments to the statutory underpin

The Ministry of Housing, Communities and Local Government (MHCLG) has published its consultation on proposals to remove age discrimination from the LGPS in England and Wales.

The consultation, which will run until 8 October 2020, follows the court ruling which found protections given to older members in the judicial and firefighters' pension schemes directly discriminated against younger members in those schemes.

MHCLG's consultation proposes to bring the LGPS in line with the government's commitment to remove the differences in treatment from all public service pension schemes with similar protections.

The Authority will need to:

- discuss with their actuary what the impact of the consultation is on the assessment of the McCloud liability; and
- if material, if material consider the impact for 2019-20 as well as the 2020-21 financial reporting.

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