



Southend-on-Sea Borough Council

Audit planning report to the Audit Committee for the year ended 31 March 2020

Issued 17 April 2020 for the meeting on 29 April 2020

Contents

01 Preliminary planning report

Introduction	3
Our audit explained	5
Scoping	6
Continuous communication	11
Significant risks	12
Purpose of our report and responsibility statement	17

02 Appendices

Appendix 1 - Fraud responsibilities and representations	18
Appendix 2 - Independence and fees	20
Appendix 3 – UK exit from the EU	22

Introduction

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.

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

Scope of our work We note that there are a number of impacts to the audit as a result of Covid-19. These have been summarised later in this paper.

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 Council and work to satisfy ourselves that the Council 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. A new code will be applicable for next year's audit.

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

Areas of focus in our work on the accounts At the date of this report, our planning, risk assessment and fraud enquiry procedures are in progress. We have met with key officers, reviewed financial information and completed our interim audit. Based on procedures performed to date, we summarise below the areas of significant audit risk we have so far identified, these may be subject to change following completion or our remaining planning work. We will update the Audit Committee on any changes to our risk assessment at the next Audit Committee meeting.

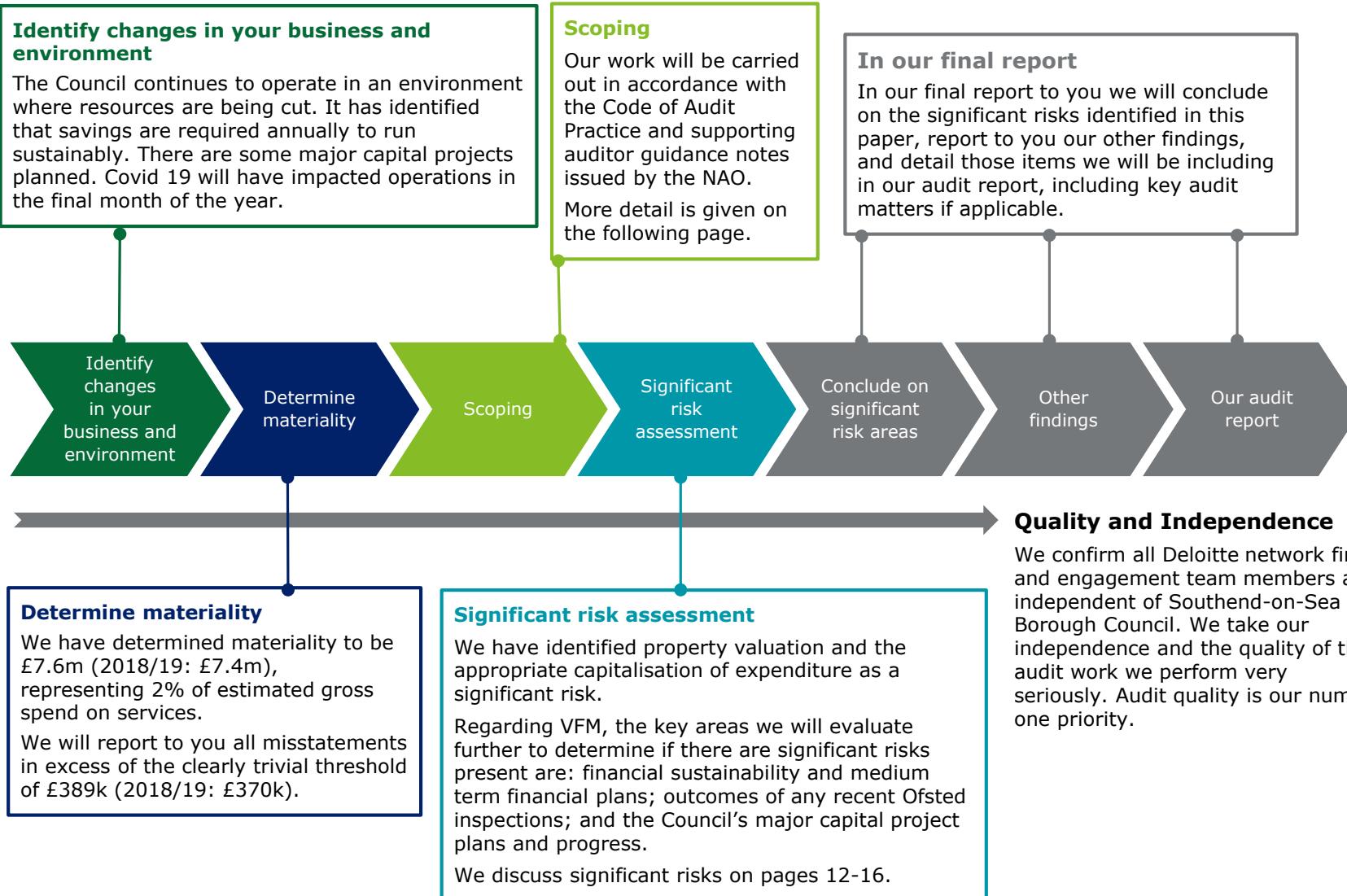
- Valuation of properties – there is significant judgement over subjective inputs to the valuation. We note that the investment property portfolio, valued at £41.3m as at 31 March 2019, will present particular valuation complexities for this year end due to the Covid-19 impacts.
- Capitalisation of expenditure – The Council has greater flexibility over the use of its revenue compared to its capital resources. This provides a potential incentive to inappropriately classify spend as capital which does not meet the accounting criteria for classification as such.
- 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.

Introduction cont'd

Areas of focus in our work on the accounts continued	Auditing standards also presume there is a risk of fraud in revenue recognition. Following an update to our analysis of the Council's income streams, we plan to continue to rebut this presumption. The key factors considered include: the amount of annual income from each source; the transaction size; the extent of any estimates; and the complexity of the recognition principles. Our conclusion is the same as that reached last year.
Areas of focus in our work on VFM	<p>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.</p> <p>Our risk assessment to determine whether there are any significant risks is at an early stage. We expect to carry out the majority of our risk assessment procedures in April and May 2020. We will then perform update procedures in June, 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 including the Medium Term Financial Strategy and the outcome of any findings from the work of regulators.</p> <p>We note that the guidance directs auditors to not consider Covid-19 consequences as an area impacting the assessment of arrangements for 2019/20 but that this will form part of the risk assessment and evaluation for 2020/21.</p> <p>Please note, we issued an unqualified VFM conclusion in 2018/19.</p>
Brexit	<p>The arrangements following the UK's exit from the EU have progressed but the full impacts are not yet clear and several areas expected to develop have been placed on hold due the impact of Covid-19.</p> <p>Our audit plan does not currently include any risks or procedures in respect of the Brexit impact upon the Authority. We will update the Audit Committee if any risks are identified as the eventual circumstances of the UK's exit become clear.</p>
Covid-19	The ongoing Covid-19 crisis continues to impact ways of working both for officers, members of the Council and the Deloitte audit team. The situation will have an impact on financial reporting for all local authorities. This includes adjustments to the central timetable for accounts submission. We include further detail on this on pages 7-8 of this planning paper.
Housing Benefit Assurance Procedures	In addition to our statutory audit, you have also appointed us to report to DWP in regard to your Housing Benefit Claim. Our report on the 2018/19 findings from this work has been included with the papers distributed for this Audit Committee. We have also been appointed to perform this work on the 2019/20 return.

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 Council'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").

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 Council 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 Council, 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.

Whole Government Accounts

For Councils in scope, we are required to issue a separate assurance report on the Council's separate return required to facilitate the preparation of the Whole of Government Accounts. The impacts of Covid-19 on this process are not yet clear although the overall view seems to be this consolidation is required. Our work on the return is carried out in accordance with instructions issued by the NAO and typically focuses on testing the consistency of the return with the Council's financial statements, together with the validity, accuracy and completeness of additional information about the Council's transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year.

Value for Money conclusion

We are required to provide a conclusion on whether the Council 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 Council, 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

Coronavirus (Covid-19) outbreak - How is Deloitte responding?

Deloitte has been closely monitoring and managing our response to the Covid-19 situation since its inception in order to be able to respond as necessary. The health and safety of our people is paramount, but we are doing our utmost to ensure we can complete audits to required timetables. We summarise below how we are responding.

Impact on our audit and our response

We have Business Continuity Plan ('BCP') arrangements which align to ISO 22301. Our BCP for the firm has been enacted to consider and mitigate the impact of Covid-19 across our operations. The health and safety of our people and those we work with comes first. This includes the provision of advice and support to staff and associates, development of response plans, and upgrades to our IT infrastructure to increase capacity for secure remote working.

We have the capability to work remotely with our audited entities, utilising a number of collaboration tools, including Deloitte Connect (a tool that facilitates secure two-way dialogue between the Deloitte team and management to effectively manage engagement co-ordination) and MS Teams allowing us to collaborate and supervise activities.

We have adequate server capacity for all our people to work remotely and technological infrastructure such as our Sharepoint site that we have already been using with officers.

We are in regular contact with regulators as well as other Deloitte Member Firms to co-ordinate and understand the impact locally so we can execute global audits.

Internally, we have travel restrictions in place and the audit will therefore be completed remotely. We are also reviewing team compositions to try to minimise the risk of full teams being disrupted.

Scope of work and approach

Coronavirus (Covid-19) outbreak - Impact on our audit

The first table below reflects some general considerations. The second table reflects some impacts specific to the local government context and how Southend-on-Sea plan to respond to this.

Impact on the Council	Impact on the Council's Statement of Accounts	Impact on our audit
<ul style="list-style-type: none">Unavailability of personnel.Disruptions in or stoppages of non-essential business travel.The closure of facilitiesIncrease in demand for some services and challenges in delivering such services	<ul style="list-style-type: none">Principal risk disclosuresImpairment of non-current assetsAllowance for expected credit lossesFair value measurements based on unobservable inputsOnerous contracts and provisions arising from contractual penaltiesEvents after the end of the reporting period	<ul style="list-style-type: none">Focus on key areas of material change and uncertaintyResource planningTimetable of the auditLogistics regarding travel and meetings with Council personnel.

Specific changes impacting local government and how the Southend on Sea audit plan will respond (bold text)

The publication date for final, audited, accounts has moved from 31 July to 30 November 2020 for all local authority bodies.

Discussions with management indicate an intention to adhere to the original audit scheduling (see p. 11) which aimed for the majority of work to be completed in June and July 2020. It is acknowledged that within this there may be 1-2 weeks slippage past the 31 July due to potential absences of key staff on both teams and the expected inefficiencies of working remotely. This plan also assumes that third party reports such as the pension report from the actuary and NNDR reports are made available within this timeframe.

There will be disclosure requirements related to the impact of Covid-19.

Management are aware of this. We will evaluate the disclosures made by officers to determine whether they comply with the relevant disclosure requirements.

Audit is to be conducted remotely

Our team will be using technology such as Microsoft Teams to facilitate the delivery of the audit whilst working remotely. We have an established practice with the finance team of transacting information over Sharepoint, our secure information storage portal, from last year's audit where we used this tool.

Potentially heightened risks of fraud

The team are receiving extra training and will maintain professional scepticism. Management should also consider any gaps in the control framework under the current circumstances giving greater rise to fraud risk.

There may be material uncertainties to disclose in regard to property and other asset valuations

We will evaluate this once the final valuation reports are provided.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We plan to meet with the Head of Internal Audit to discuss the internal audit work performed and we will review the internal audit reports issued in the period. We will 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.

Our assessment of the internal control environment has not been concluded. We will report to the Audit Committee any findings arising from further procedures.

We will consider any major changes to IT systems in year. This forms part of our ongoing risk assessment of IT systems and will involve Deloitte IT specialists as required.

Materiality

The audit partner has determined materiality as £7.6m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.

We have used 2% of gross spend on services, adjusted to remove the effect of impairments and reversals of impairments against properties, as the benchmark for determining materiality as this is an area of focus for users of the accounts.

Scope of work and approach

Our approach

Audit considerations regarding the Group Accounts

We have not been appointed the auditor of the material subsidiary trusts and companies within the group. In order to gain sufficient assurance over significant account balances in the group accounts, we will perform further audit procedures at the material components. The relevant components for audit procedures are shown in the table below. These are based on 2018/19 figures. Based on discussion with management, we do not anticipate significant changes for the 2019/20 audit period. This may be revised based on actual 2019/20 outturn.

Components	Service Expenditure 2018/19 £m	Net Assets 31/3/19 £m	%age of total Group Expenditure	%age of group Net Assets	Summary of work to be performed
Council	375.2	507.8	94.5%	97.5%	The Deloitte group audit team will perform full-scope audit procedures under the Code on this component.
Trust Funds	3.6	23.3	0.9%	4.5%	<p>The Trust Funds are audited separately by a different firm with a timeline that may not meet audit deadlines.</p> <p>For the purpose of the group audit opinion for the Council's Statement of Accounts, material Trust funds will have specified tests performed by the group team focused on assets held.</p>
South Essex Homes Limited	11.7	(5)	2.9%	(1.0%)	<p>SEHL is audited separately by a different firm with a timeline that may not meet audit deadlines. For the purpose of the group audit opinion for the Council's Statement of Accounts, SEHL will have specified tests performed by the group team.</p>
Southend Care Limited	6.6	(5.5)	1.7%	(1.1%)	<p>SCL is audited separately by a different firm with a timeline that may not meet audit deadlines. For the purpose of the group audit opinion for the Council's Statement of Accounts, SCL will have specified tests performed by the group team.</p>

Group Materiality

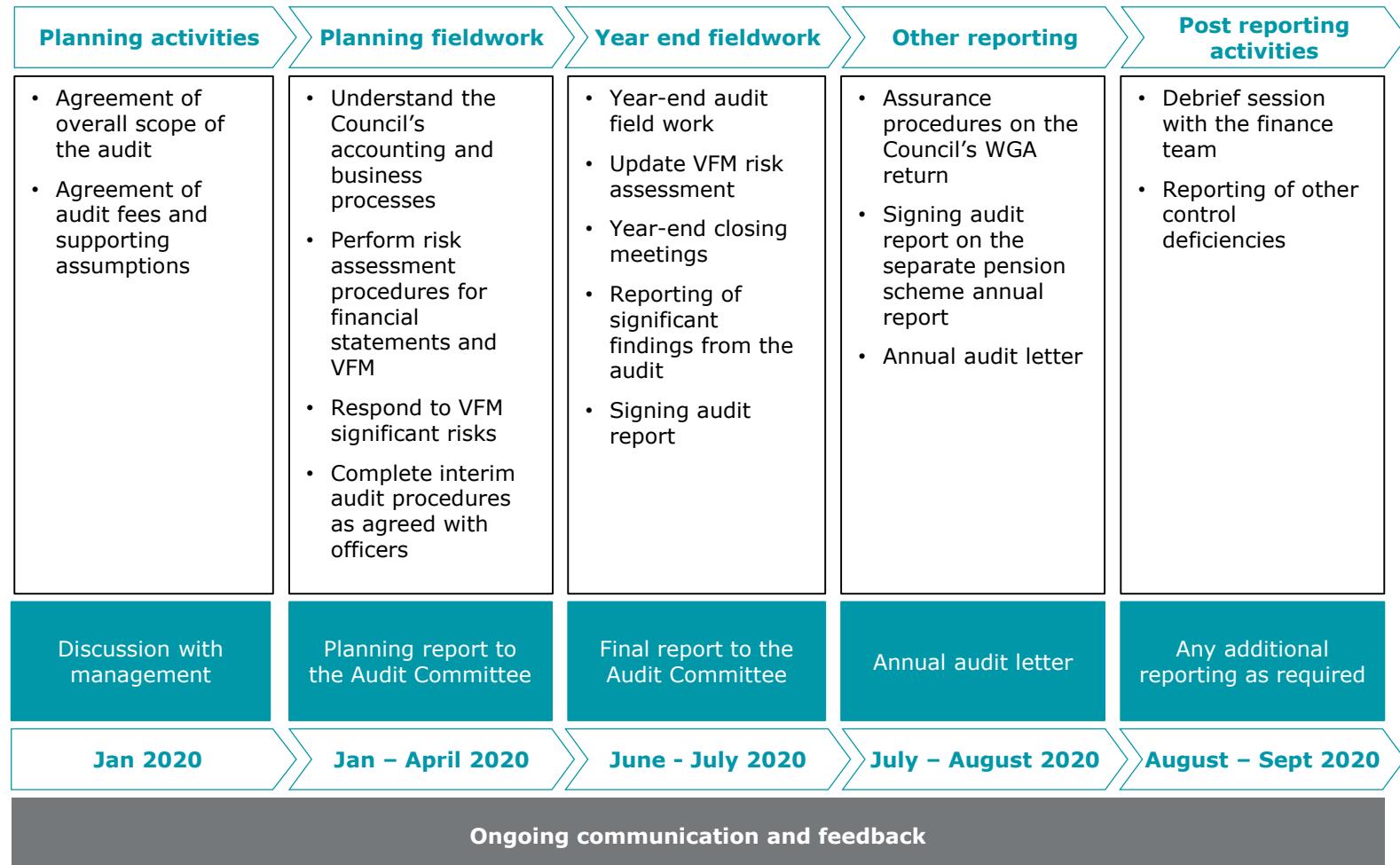
Materiality for the group is £7.7m in line, but slightly higher than, the Council-only materiality of £7.6m. In order to apply meaningful specified procedures to the non-Council, in-scope group entities, component materiality will be reduced accordingly based on the percentage of the group represented by each subsidiary and will be up to 40% of the group materiality figure of £7.7m.

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.

We note the planned schedule below has been impacted by Covid 19. See pages 7-8 for further detail, in particular the second table on page 8. The chart below reflects the standard, non-Covid 19 impacted timescale for the audit.



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 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.

Inherent Red risks	IAS 1 Critical judgements and accounting estimates	Prior year significant risks	Changes in environment
<ul style="list-style-type: none">• Council Budget/Financial Sustainability• Recruit/Retain staff• External challenges e.g. Brexit, government agenda, relationships with key partners• Changes in government housing policy• Access to regeneration funding• Failure to integrate Heath and Social Care• Children's Services Improvement Plan• Surface flooding and seafront cliff movement• Cyber Security• Waste contracts• Major infrastructure• Meet Local Plan deadlines	<ul style="list-style-type: none">• Future levels of funding• Recognition of schools on the balance sheet• PPE valuations• Pension liability valuation	<ul style="list-style-type: none">• Valuation of properties• Management override of controls• Pension liability assumptions	<ul style="list-style-type: none">• Upcoming capital projects• Southend 2050

We have noted above "inherent" risks scored as "Red". We note the Council Risk Register reflects inherent, current and target risks defined as follows:

Inherent score – the risk scored with no controls, assurances or actions in place.

Current score – the risk scored with controls, assurances and progressed actions.

Target score – the risk score with controls and assurances in place and linked actions completed.

The latest risk register indicated that no risks have a "Current" rating as "Red".

Significant audit risks

Risk 1 – Property Valuation

Risk identified	<p>The Council held dwellings of £365m and other land and buildings of £276m at 31 March 2019 which are required to be recorded at current or fair value at the balance sheet date. The authority also holds £41.3m of commercial investment property.</p> <p>The fixed asset portfolio is divided into five key asset categories. The Council's practice is to obtain a specific valuation of one of the five asset categories at the start of the year on a cyclical basis. This approach leads to the full asset portfolio being evaluated within each five-year period. In addition to this specific exercise the Council also obtains advice as to whether there has been a material change in the period up to the balance sheet date based on indices. Any changes based on index factors are then applied to the total asset base relevant to each index.</p> <p>Key judgements include:</p> <ul style="list-style-type: none">• Whether there has been a material change since the date of the last valuation• In the valuation of dwellings, defining appropriate beacon groups, such that the level of homogeneity of properties within each group is appropriate, and selecting appropriate comparators and, where relevant, making appropriate adjustments• In the valuation of schools, appropriate selection of the location and design of modern equivalents.• Assumptions applied to estimating values of "other properties", the category in scope for 2019/20 valuation, including correct application of different valuation methods to different property types.
Our response	<p>We will test the design and implementation of key controls in place around the property valuation.</p> <p>We will use our valuation specialists, Deloitte Real Estate, to review the methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs. We will use this to challenge whether the valuation movements are consistent with expectations seen in other data regarding the property market.</p> <p>Our specialists will also evaluate the methodology applied in and the outcomes of the full valuation of the "other properties" category, performed as at 1 April 2019 and will assess and challenge the index-based factor applied to the whole property portfolio to adjust the overall valuation to the balance sheet date.</p> <p>We note there are likely to be aspects of the property valuation exercise that have a greater degree of uncertainty linked to them as at 31 March 2020 due to the impact of Covid-19. This will be evaluated as part of our property valuation work involving property specialists from Deloitte Real Estate.</p>

Significant audit risks

Risk 2 – Capital Expenditure

Risk identified	<p>As part of the Medium Term Financial Strategy, the Council has a substantial capital programme of £276m to the end of the 2024/25 period. This includes £71.0m in 2019/20.</p> <p>Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.</p> <p>The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital. We have therefore identified classification of capital expenditure as a fraud risk in the financial statements.</p>
Our response	<p>We will test the design and implementation of controls around the capitalisation of costs.</p> <p>We will select a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample will include Assets Under Construction.</p>

Significant risks

Risk 3 – Management override of controls

Risk identified	<p>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 to be the significant audit risks; capitalisation of expenditure and valuation of the Authority's estate. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.</p>
Our response	<p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <ul style="list-style-type: none">• We will risk assess journals and select items for detailed follow up testing. We do this by using computer-assisted 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 (of which the most significant is the provision for NNDR appeals), bad debt 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.• We will consider whether the conditions resulting from Covid-19 impact the level of risk associated with potential frauds and adjust our procedures accordingly.

Value for money conclusion

Our risk assessment process and significant risks

We are required to provide a conclusion on whether the Council 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 procedures include:

- Reading the Annual Governance Statement
- Considering local and sector developments and how they impact on the Council
- Enquiries with senior officers
- Reviewing reports issued by internal audit
- Reviewing other documentation of the Council including budget setting reports, financial and operational performance monitoring reports
- Reviewing reports issued by regulators.
- Understanding the arrangements in potential areas of significant risk – in particular the planning of the Council's finances and major capital projects.
- Review of effectiveness of working with partners and third parties including subsidiary entities.

- Considering any impact of the Southend 2050 plan. Southend 2050 is a strategy exercise that commenced in the 2018/19 period, inviting stakeholders to explore and envision what they would like the area to become and changes required to achieve this.

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 such as Ofsted.

We note that the NAO guidance indicates a low likelihood that Covid-19 consequences will form a risk area impacting the assessment of arrangements for 2019/20 but that this will form part of the risk assessment and evaluation for 2020/21. The response to Covid-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the 2019/20 financial year.

Our 2018/19 risk assessment considered the areas of capital projects, Ofsted inspection reports and financial sustainability/planning as the key areas of VFM focus. Flowing from our risk assessment and resulting procedures our overall conclusion was a clean opinion in regard to VFM. This matched the conclusion reached by our predecessor in relation to the 2017/18 period.

We expect to carry out the majority of our risk assessment procedures in the remainder of April. We will then perform update procedures in June, 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 including the Medium Term Financial Strategy and the outcome of any findings from the work of regulators.

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.

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 Council.

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.

Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

Other relevant communications

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



Deloitte LLP

St Albans | 17 April 2020

Appendix 1 - Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

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



Our Responsibilities:

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



Fraud Characteristics:

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

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

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (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

Independence

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2020 in our final report to the Audit Committee.
Non-audit fees	There are no non-audit fees other than the Housing Benefit work and the Teachers Pension work as set out in the following page.
Independence monitoring	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Appendix 2 - Fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2019 to 31 March 2020 and as set out in our fee letter issued 29 April 2019 alongside some key assumptions regarding are as follows:

	Current year £'000
Audit under the NAO's Code of Audit Practice: Council	110
Total audit	110
Other assurance services – Housing Benefit work	21*
Total fees	131

*The fee for the Housing Benefit Subsidy work is comprised of a £17k base fee and an estimated £4k additional charge for known additional validation procedures required due to errors found in the 2018/19 assurance process. This fee currently assumes no substantial changes due to Covid-19 and is therefore subject to change. We will update the Audit Committee accordingly.

It is not yet clear what the reporting requirements will be in relation to other assurance work performed such as the Teachers' Pension Return due to the impact of Covid-19. This is usually submitted in November. We will update the Audit Committee accordingly as soon as the scope of this work is known. For this and other similar certification work, as routine attest work with relatively low fee levels and often performed by the auditor, the work is not deemed to impact auditor independence.

Appendix 3 - UK exit from the EU

Navigating uncertainty – key questions for the audit committee



Is the Council set up to navigate the change?

Have you assessed the impact of potential changes and identified key decision points?

Does your assessment include how Brexit could impact on your customers, supply chain and people?

Will additional financing facilities be needed?

Have you defined the options there are to respond? E.g. scenario or contingency planning?

Are you monitoring developments and are you ready to act proportionately at the right time?

Are all the right people involved? Does this include discussion with key stakeholders?

Are channels of communication clear, both internally and externally, and have company spokespeople been fully briefed?

FRC Letter to CFOs and Audit Committee Chairs, October 2018:

"We encourage companies to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may still attach to the UK's position when they report. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, we expect these to be clearly identified and for management to describe any actions they are taking, or have taken, to manage the potential impact. In some circumstances this may mean recognising or remeasuring certain items in the balance sheet.

The broad uncertainties that may still attach to Brexit when companies report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management's assumptions."

Appendix 3 - UK exit from the EU

Navigating uncertainty – key questions for the audit committee



Impact on internal planning, forecasting and strategy

Is management using forward-looking indicators such as forward bookings, contact conversion rates and supplier forward pricing?

Is there a significant impact from foreign exchange changes and volatility?

Have cash reserves, financing requirements and longer term viability all been assessed?

Have opportunities as well as risks been considered?



Impact on internal and external audit

Should the scope and plan for internal audit be amended to include contingency planning, or testing key risk indicators?

Should internal audit be asked to perform work on longer term viability?

Is there an impact on critical accounting judgments and areas of estimation uncertainty that need to be discussed with the external auditor?



Impact on external reporting

Will disclosures on principal risks and uncertainties need to be revisited now Article 50 has been triggered and the draft Withdrawal Treaty has been published.

Does longer term viability statement account for the fact that the end of the exit negotiation period is now within the lookout period?

Have you developed a plan for appropriately detailed disclosure in management commentary or in the Statement of Accounts?



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