LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

SUPPLEMENTARY INFORMATION

Paper copies will be made available at the meeting and by request from Democratic Services.

Audit Committee

Wednesday, 30 October 2019

The following report was marked 'to follow' on the main agenda:

Agenda Item Number	Page	Title
6	1 - 30	EXTERNAL AUDIT ISA 260 REPORT

 Agenda Item 6

AUDIT COMMITTEE

External Auditor's Annual Audit Findings for Lancaster City Council 2018/19
30 October 2019

Report of Chief Finance Officer

PURPOSE OF REPORT
To receive a report from our External Auditors setting out their findings on the audit of the Statement of Accounts and value for money conclusion.
This report is public.

RECOMMENDATIONS

The Audit Committee is recommended to

(1) Note the adjustments to the financial statements and the other issues raised by the auditor which are set out at Appendix 'A'.

1.0 Introduction

1.1 The external auditor is required to report to the Audit Committee their audit findings prior to concluding their work. The report at Appendix 'A' covers the overall findings of the external auditor in relation to the:

- Audit of the annual Statement of Accounts of Lancaster City Council and their proposed opinion on those accounts; and
- Value for money conclusion.

2.0 Proposal Details

2.1 At the time of writing this report, although a substantial amount of the audit is complete there remains a significant difference of opinion between officers and the external auditors regarding some of the Council's property valuations. Officers are working with the external auditors to address their concerns, however, until this issue has been resolved the Statement of Accounts cannot be approved and our external auditors have informed us there is a possibility that they may wish to qualify the Statement of Accounts.

2.2 The results of this work are set out at Appendix A and representatives of Deloittes will attend the Audit Committee meeting to present their findings and answer any questions that Members may have on the audit of the Statement of Accounts.

3.0 Details of Consultation

3.1 The report has been agreed with the Council's Chief Finance Officer and Director of Corporate Services.

4.0 Options and Options Analysis (including risk assessment)

4.1 The audit of the Statement of Accounts is part of the overall control framework that is designed to ensure that the Council properly accounts for the use of its assets and resource. Given the progress of the audit, no alternative options are put forward, but the Committee could make supplementary recommendations regarding any matters arising

5.0 Conclusion

5.1 Subject to the resolution of the outstanding valuation issue, the findings of the audit have been varied with the majority reflecting historic accounting treatment and processes. Recommendations have been made for the Council's future financial reporting and VFM arrangements, many of which were already known and work on them is in progress.

CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):

No implications directly arising.

LEGAL IMPLICATIONS

The Accounts and Audit (England) Regulations 2015 apply for accounts and reports relating to the financial year 2018/19, and completion in accordance with International Financial Reporting Standards is required in order to comply with both the statutory framework established by the Accounts and Audit Regulations, and proper accounting practices required by Section 21(2) of the Local Government Act 2003.

FINANCIAL IMPLICATIONS

None of the issues raised during the course of the audit, or those that remain outstanding will have any impact on the financial outturn previously reported to Members.

However, Members should be aware that two of the proposals put forward by the External Auditors to resolve the valuations issue would involve additional cost to the Council of between £10K and £15K.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

This report forms part of the Chief Finance Officer's responsibilities, under his role as s151 Officer.	
DEPUTY MONITORING OFFICER'S COMMENTS The Deputy Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS None	**Contact Officer:** Paul Thompson **Telephone:** 01524 582603 **Email:** pthompson@lancaster.gov.uk **Ref:**

Deloitte.

LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Lancaster City Council

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

issued on 23 October 2019

Contents

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 financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee (the Committee) of Lancaster City Council (the Council) for the 2019 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2019.

Status of the audit	Completion of our audit is delayed due to a number of issues identified with the accounts preparation process, meaning the PSAA deadline of 31 July 2019 was missed. We continue to work with the Council to resolve the outstanding matters listed below: • Resolution of certain enquires in respect of arrangements to prevent and deter fraud and error; • Completion of testing of related party transactions and related disclosures; • Completion of testing of the two sampled redundancy payments; • Receipt of outstanding evidence in respect of the valuation of heritage assets; • Resolution of outstanding queries in respect of the valuation of Authority assets; • Updating testing of the cashflow statement; • Completion of internal quality control procedures including clearance of the prior period adjustment note with Deloitte specialists and aspects of Director review of the audit file; • Receipt of final updated Statement of Accounts; • Completion of review of subsequent events; and • Receipt of signed Statement of Accounts and Letter of Management Representations.
Key judgements and conclusions from our testing	The key judgements in the audit process related to: • Property valuations: The assumptions and judgements used by the Authority in the calculation of asset values. These have been challenged the Deloitte Real Estate team and a number of queries remain unresolved. • Pension Liability valuation: Overall, we are satisfied that the IAS19 actuarial report has been correctly accounted for in the financial statements. Our actuarial specialists are concluding their review on the McCloud assumptions adopted.

Introduction

The key messages in this report (continued)

Narrative Report & Annual Governance Statement	• We reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work and noted no issues. • The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. • We have no significant matters to raise with you in respect of the Annual Report. We suggested a number of minor changes to management for consideration which we anticipate being included in the final version.
Duties as public auditor	• We received no objections from local electors in relation to the 31 March 2019 accounts. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• The Council is not a sampled component for Whole of Government Accounts (WGA) reporting. We have notified the National Audit Office of the delay to our audit opinion and will issue our final confirmation that the Authority falls below the component thresholds defined by the National Audit Office once the audit is concluded.

Paul Hewitson
Lead audit director

Our audit explained

We tailor our audit to the Authority

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach. We continued to hold discussion with management to ensure we are up to date with all changes in the business and environment.

Scoping

We have scoped in line with the Code of Audit Practice issued by the NAO.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out after page 11 of this report.

Determine materiality

When planning our audit we set our materiality at £2.9m based on approximately 2% of forecast gross expenditure.

Following the identification of a range of errors impacting gross expenditure we revised our assessment of materiality downwards to £2.4m (2% of gross expenditure). We report to you in this paper all misstatements above £118,000.

Significant risk assessment

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

Conclude on significant risk areas

We draw to the Committee's attention our conclusions on the significant audit risks. In particular the Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on our audit work, we expect to issue an unmodified audit report with no references to concerns regarding the Council's ability to secure economy, efficiency and effectiveness in its use of resources.

Our audit explained: Scope of work and approach

We have three key areas of responsibility under the Audit Code

Financial statements

We have conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council has prepared its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We are also required to issue a separate confirmation to the NAO on the Authority's Whole of Government Accounts return. This had a deadline of the 13th of September, however, as outlined in the summary, the issuing of this return has been delayed by the overall delay to the audit process.

Annual Governance Statement

We have considered the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identified any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we have reviewed the annual report and compared with other available information to ensure there are no material inconsistencies. We have also reviewed any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Value for Money conclusion

We have satisfied ourselves that the Council has made proper arrangements for securing financial sustainability and economy, efficiency and effectiveness in its use of resources.

To perform this work, we have:

- planned our work based on consideration of the significant risks of giving a wrong conclusion; and
- carried out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore included a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

Significant risks

Dashboard

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Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Page no.
Completeness and cut off of service line expenditure	✓	✓	D+I	Satisfactory		[x]
Property valuations	✓	✗	D+I	Satisfactory	TBC	[x]
Management override of controls	✓	✓	D+I	Satisfactory		[x]

Overly prudent, likely to lead to future credit

Overly optimistic, likely to lead to future debit.

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

Significant risks

Risk 1 – Completeness and cut-off of service line expenditure

Risk identified	Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that a fraud risk lies with the completeness and cut-off of service line expenditure (as well as management override of controls as detailed on page 10). We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed (such as Housing Benefit expenditure). There is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year-end position. There is a risk that the Council may materially misstate expenditure through manipulating the year end position in order to report a more favourable outturn.
Our response	Our work in this area included the following: We have obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of service line expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed); We performed focused testing in relation to the completeness and cut-off of service line expenditure (excluding the areas set out above) including detailed reviews of provisions and accruals; and, We reviewed and challenged the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded service line expenditure.
Conclusion	We have completed our work in relation to the completeness and cut-off of service line expenditure and no material issues have been identified. From our work, although we did not identify any significant bias in the key judgements made by management in relation to provisions and accruals we did judge that the provision of Non Domestic Rates appeals was immaterially optimistic (see unadjusted misstatement 2 on page 17.

Significant risks

Risk 2 – Property Valuation

Risk identified	The council held £236m of property assets at 31 March 2017 which increased to £241m as at 31 March 2018. The increase was in part due to additions of £13.6m offset by £1.6m of disposals, and depreciation of £7.8m. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. Furthermore the Council completed the valuation as at the 1 April 2018. Any changes to factors used in the valuation process could materially affect the value of the Council's assets as at year end. There is therefore a risk that that the value of property assets materially differ from the year end fair value.
Our response	We tested the design and implementation of key controls in place around the property valuation, and how the Council assured itself that there are no material impairments or changes in value for the assets not covered by the annual valuation; We used our valuation specialists, Deloitte Real Estate, to review a sample of revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals; We reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated. We used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets valued between April 2018 and 31 March 2019. 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	The accounting entries made in relation to the revaluation have been accurate, and accounted for correctly. Our Deloitte Real estate team have reviewed the assumptions and methodology applied by the valuers. Our valuations experts have identified a range of concerns regarding the assumptions used in the valuations undertaken. These concerns include: • The extent of deductions made against gross rentals when calculating the value of car park assets on a capitalised net yield basis • The lack of deductions made against the highest and best use valuation of a plot of agricultural land to allow for costs and time needed to gain vacant possession and necessary planning consents to achieve the highest and best use of the land; and • The lack of open market evidence to support the valuation of the land associated with the bus station asset All of these issues potentially result in overstatement of the Authority's assets. At the time of issuing this report, these queries remain unresolved and we will provide a verbal update at the meeting. In addition to these matters we identified a clerical error in the recording of the valuation of an investment property asset which overstated the value of investment property by £1.8m. This has been adjusted in the revised Statement of Accounts (see adjustment [x] on page [y]

Significant risks

Risk 3 – Management override of controls

Risk identified	In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk due to fraud for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness 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 judgement to influence the financial statements.
Our response	In considering the risk of management override, we have performed the following audit procedures that directly address this risk: • We tested the design and implementation of key controls in place around journal entries and key management judgements; • We risk assessed journals and selected items for detailed testing. The journal entries have been selected using computer-assisted profiling based on areas which we consider to be of increased interest; • We tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. Our testing in this area is still ongoing. • 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 have become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the Council and its environment.
Conclusion	We have completed our work in relation to journals and note no issues based on the work completed. From our work we did not identify any significant bias in the key judgements made by management, including the application of accounting estimates. The control environment appears appropriate for the size and complexity of the Council. We considered the tone at the top and note that there are no concerns we wish to draw to the attention of management or those charged with governance. We have completed our work in relation to journals and no issues were identified during our testing. We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Other significant findings

Internal control and risk management

ISA (UK) 315 requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgement whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.

During the course of our audit we identified significant internal control and risk management findings. Control recommendations arising from our audit process will be discussed with management. Our observations on the accounts production process are set out below

Area	Observation	Priority
Controls and processes supporting financial reporting	The initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard, with issues noted including: • Incorrect inclusion of internal recharges in the CIES in both 2018/19 and 2017/18; • Inconsistencies between notes and primary statements; • Poor quality of first draft of prior period adjustment note; • Presence of unresolved historic balances in debtors and creditors; • Items included in the bank reconciliation which, although identified, were not correctly accounted for; • Consistency of review of accruals listings provided by service areas to the finance team; • Inconsistency in the classification of items as accruals and creditors within the general ledger; • Refreshing rates of provisioning for bad and doubtful debts; and • Inclusion of spurious debtor and creditor balances in respect of transactions which were cash settled at the year end. Together these indicate a range deficiencies in the financial reporting and close process. We understand that management recognise that improvements are required to the financial close and reporting process; we recommend that management prioritise those areas which have come to light through the audit process and have resulted in misstatement to the financial statements.	●

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The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings

Internal control and risk management

During the course of our audit we have identified a significant number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
New accounting standards – IFRS 9 and 15	Our work on IFRS 9 and 15 did not identify any material changes to the financial statements, we highlight that both standards do not materially impact the Council, against previous reporting outputs. Management provided papers confirming the approach adopted for both IFRS 9 and 15 adoptions, in advance of year end. We recommend the Council review how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 and 15 and the process to be followed in assessing new and unusual transactions.	
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	
IT processing environment	Our IT specialists identified a number of individually minor IT processing environment issues concerning matters such as: testing of integrity of backups taken; change management and patching processes; completeness, documentation and review of certain IT procedures; control of starters and leavers including user access reviews and the practice of access mirroring; password parameters; lack of service auditor reporting. The matters did not have an impact on the audit approach however have been communicated to management for action.	

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Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Based on the status of our work, our opinion on the financial statements is expected to be unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Your annual report

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

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Our review identified a small number of areas where the Narrative Report needed revising in order to be consistent with the remainder of the Statement of Accounts, we will reconfirm consistency throughout the document once the outstanding audit matters have been attended to.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No major issues were noted from our review.

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Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

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

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

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

Paul Hewitson

for and on behalf of Deloitte LLP

Newcastle

October 2019

Appendices

Audit adjustments
Unadjusted misstatements

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

			Note #	Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	*Memo: Collection Fund £000*	If applicable, control deficiency identified
Reclassification of accrued interest from long term borrowings to short term	[1]	Short Term Borrowings	17		(1,114)		N/a
		Long Term Borrowings	17		1,114		N/a
Judgemental understatement to NDR provision	[2]	Adjustment to Provision for alteration of lists of appeals				*217*	N/a
							N/a
Errors noted in the bank reconciliation	[3]	Bank Overdraft	20		798		N/a
		Short Term Creditors: Other Entities and Individuals	22		(798)		N/a
Further unidentified elements of internal income and expenditure	[4]	Gross Income		1,029			N/a
		Gross Expenditure		(1,029)			
Impact of the McCloud / Sargent judgement	[5]	Service Expenditure		1,239			N/a
		Pension Liability			(1,239)		

Audit adjustments

Unadjusted misstatements (continued)

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).

		Note #	Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	*Memo: Collection Fund £000*	If applicable, control deficiency identified
Incorrect elimination of income and expenditure	Gross Income (Health and Housing)		(318)			
	Gross Income (Regeneration and Planning)		(40)			
	Gross Income (Central Services)		(267)			
	Gross Income (Environmental)		625			
	Gross Expenditure (Health and Housing)		318			
	Gross Expenditure (Regeneration and Planning)		40			
	Gross Expenditure (Central Services)		267			
	Gross Expenditure (Environmental)		(625)			

Audit adjustments
Disclosures

Uncorrected Disclosure misstatements

The following uncorrected disclosure 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).

Disclosure number and title	Correction made
17: Financial Instruments	The fair value of long term loans and receivables requires updating.
42: Contingent Liabilities	The disclosure in respect of the Local Government Pension Scheme – The Sargent & McCloud case requires updating to reflect current circumstances.
45: Prior Period Adjustment	The prior period adjustment note requires clarification and revision.
HRA Note 11: Notes to the statement of movement on the HRA balance	The note required updating to more correctly analyse the adjustments between those required under statute and transfers between reserves.

Audit adjustments

Current Year Corrected misstatements

The following corrected misstatements have been identified up to the date of this report which have been corrected by management as required by ISAs (UK).

			Note #	Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	*Memo: Debit/ (credit) usable reserves £000*	If applicable, control deficiency identified
Elimination of internal trading from the Gross Income and Expenditure elements of Cost of Services	[1]	Income		14,803	-	-	N/a
		Expenditure		(14,803)			N/a
Correction of analysis of presentation of Financing and Investment Income and Expenditure	[2]	Income		6,180	-	-	N/a
		Expenditure		(6,180)			N/a
Correction of clerical error on valuation of investment property	[3]	Income in relation to Investment properties	11	1,811	-	-	N/a
		Investment property	15	-	(1,811)	-	N/a
Correction of Service costs incorrectly included in pension interest costs	[4]	Housing Revenue Account Expenditure		164	-	-	N/a
		Pension Interest Costs	11	(164)			N/a
Correction of analysis of presentation of Taxation and Non Specific Grant Income and Expenditure	[5]	Income		2,972	-	-	N/a
		Expenditure		(2,972)			
Correction of classification of financial instruments which meet the definition of cash and cash equivalents.	[6]	Cash and Cash Equivalents	20	-	9,110	-	N/a
		Short Term investments	17		(9,110)		N/a
Elimination of brought forward and carried forward short term debtor and creditor balances which should have been offset	[7]	Short term creditors: Central Government	22		4,701		N/a
		Short term debtors: Central Government	19		(4,701)		N/a

Audit adjustments

Current Year Corrected misstatements (continued)

The following corrected misstatements have been identified up to the date of this report which have been corrected by management as required by ISAs (UK).

			Note #	Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	*Memo: Debit/ (credit) usable reserves £000*	If applicable, control deficiency identified
Correction of dummy BACS run in April 2019	[8]	Bank Overdraft	20		(794)		N/a
		Short Term Debtors: Other Entities and individuals	19		111		N/a
		Short Term Debtors: Other Local Authorities	19		13		N/a
		Short Term Creditors: Other entities and individuals	22		670		N/a
Reclassification of Accrued Interest from Creditors to Borrowings	[9]	Short Term Creditors: Central Government	22		1,114		N/a
		Long Term Borrowings	17		(1,114)		N/a
Reclassification of HRA court costs	[10]	Shor Term Debtors: Other Entities and Individuals	19		184		N/a
		Short Term Debtors: Housing Rents	19		(184)		N/a
Total				1,811	(1,811)		

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Audit adjustments
Disclosures

Corrected Disclosure misstatements

The following corrected disclosure 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).

Disclosure number and title	Correction made
4: Assumptions made about the future and other major sources of estimation uncertainty	The estimated impact of movements in the investment property valuations required updating for the identified reduction in investment property valuations.
6: The Expenditure and Funding Analysis	A range of presentational corrections and corrections resulting from the audit adjustment to the valuation of investment properties.
7: Expenditure and Funding Analysis	Extensively corrected to ensure alignment with other notes within the Statement of Accounts and reflection of the adjustment to investment property valuations.
13 Property, Plant and Equipment. Revaluations	Note restructured to correctly disclose the age profile of valuations a required by the Code.
34: External Audit Costs	Note was updated to clarify the change in appointed auditor.
35: Grant Income	The note was extensively represented to ensure it was in alignment with other notes within the Statement of Accounts.

Audit adjustments
Prior Year Corrected misstatements

The following corrected misstatements have been identified up to the date of this report which have been corrected by management as required by ISAs (UK).

			Note #	Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	*Memo: Debit/ (credit) usable reserves £000*	If applicable, control deficiency identified
Elimination of internal trading from the Gross Income and Expenditure elements of Cost of Services	[1]	Income		15,590	-	-	N/a
		Expenditure		(15,590)			N/a
Elimination of duplicated internal recharge within Cost of Services	[2]	Income		4,082	-	-	N/a
		Expenditure		(4,082)			N/a
Correction of analysis of presentation of Taxation and Non Specific Grant Income and Expenditure	[3]	Income		2,072	-	-	N/a
		Expenditure		(2,072)			
Elimination of brought forward and carried forward short term debtor and creditor balances which should have been offset	[4]	Short term creditors: Central Government	22	-	4,701		N/a
		Short term debtors: Central Government	19	-	(4,701)		N/a
Reclassification of HRA court costs	[5]	Shor Term Debtors: Other Entities and Individuals	19	-	171		N/a
		Short Term Debtors: Housing Rents	19	-	(171)		N/a

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Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk of fraud in management override of controls as key audit risks for your organisation.

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

No fraud concerns have been raised which have impacted our audit approach.

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

Concerns:

No fraud concerns have been identified however we have a single outstanding query in respect of fraud arrangements.

Independence and fees

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

Independence confirmation	We confirm that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2018/19, in line with the fee range provided by the PSAA, is £44,959. In view of the range and extent of issues and errors detected we have incurred substantial additional costs in completing the audit. Once the full extent of these overruns are known we will agree appropriate additional fees with management to recognise the excess audit effort required. No non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between FRC Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Independence and fees (Cont.)

	Planned £'000 (excl VAT)	Comments
Code audit fee	45	We have incurred substantial additional costs as a consequence of the additional time spent on the audit of the 2018/19 financial statements which will be subject to discussion with management once the full extent of these are understood.
Total audit fees	45	

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and our objectivity is not compromised.