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Wiltshire Council
Where everybody matters

Planning report to the Audit and Governance Committee for the year ending 31 March 2021

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Partner 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 planning report to the Audit and Governance Committee for the audit of the 2020/21 financial statements. I would like to draw your attention to the key messages of this paper:

Audit Plan	We have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council. Our basis for calculating materiality remains in line with our prior year audit. We note that a separate Audit Plan will be produced in relation to the Pension Scheme.
Key risks	The significant risks for financial accounts audit have been identified as: Property Valuation; Completeness of Accrued Expenditure; Valuation of the Council's share of the Wiltshire Pension Fund Net Liability; and Management Override of Controls. At this stage, we have not identified any risks of significant weaknesses in relation to our work on the Council's Value for Money arrangements, although we note that our initial risk assessment is still in progress. Our risk assessment process is ongoing and should we identify any significant risks as part of our ongoing procedures, or risks of significant weaknesses in Value for Money arrangements we will inform the Audit and Governance Committee.
Regulatory	The National Audit Office has issued a revised Code of Audit Practice for 2020/21, including a significantly revised approach to "Value for Money" work. This requires a wider scope of underlying work, and introduces narrative reporting for all bodies in a new public "Annual Auditor's Report". The audit approach reflects changes to International Standards on Auditing (UK) on management estimates (ISA (UK) 540), and Practice Note 10, effective for this year.
Prior Year	The audit of the 2019/20 financial statements is ongoing due to a number of issues identified in the draft accounts by the Council and Deloitte. A separate update report on the 2019/20 audit has been provided to the Committee.

Responsibilities of the Audit and Governance Committee

Helping you fulfil your responsibilities

As a result of regulatory change in recent years, the role of the Audit and Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit and Governance Committee responsibility to provide a reference in respect of these broader responsibilities.

Why do we interact with the Audit and Governance Committee?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Council, provide advice in respect of the fair, balanced and understandable statement.
- Assess and advise on the appropriateness of the Annual Governance Statement, including conclusion on value for money.

Internal controls and risks

- Review the internal control and risk management systems
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

We have spent time with management understanding the current year matters, especially the impact of Covid-19, and prepared our risk assessment for the audit, we will continue to keep this under review throughout the audit process.

Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

More detail is given on page 6.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper and report to you our other findings.

Determine materiality

We have determined a materiality of £17.2m. This is based on 1.7% of total expenditure per the 2019/20 accounts. We will report to you any misstatements above £0.861m. We will report to you misstatements below this threshold if we consider them to be material by nature. We note that our materiality calculation will be updated during the final audit based on total expenditure per the 2020/21 accounts.

Significant risk assessment

We have identified significant audit risks in relation to the Council which are in line with the prior year. More detail is given on page 13 to 18.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Wiltshire Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach

Scope: we have three key areas of responsibility under the Audit Code

Financial statements

We will conduct 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 will prepare 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 assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify 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 will review the annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Value for Money (VFM) conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

The updated Code of Audit Practice changes the approach of external audit work away from the auditor performing a risk assessment, and then only performing further work if a significant risk were identified, to specifying procedures that will need to be undertaken in each of three areas:

- Financial sustainability;
- Governance and Improving economy; and
- Efficiency and effectiveness.

This will require a minimum level of work at every local public body, with additional risk based work where relevant.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 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 will review their reports and meet with them to discuss their work where necessary. We will review the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit, where necessary, to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council completes the CIPFA Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Value for Money and other reporting

As noted on the previous slide, changes to requirements will require a minimum level of work at every local public body, with additional risk based work where relevant. The National Audit Office (NAO) has recently issued an audit procedures scope and discussions on implementation are ongoing.

We will report by exception any matters we identify that indicate the Governance Statement does not comply with the CIPFA guidance, or is misleading or inconsistent with information of which we are aware from our audit. We are not required to consider, nor will we consider, whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

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.

Planning	Interim	Year end fieldwork	Reporting activities
• Planning meetings to inform risk assessment; and agree on key judgemental accounting issues. • Document our understanding of the Council and key controls and business cycle processes relating to the financial reporting process reporting. • Review of key Council documents including Cabinet, Council and Audit and Governance Committee minutes. • Planning work for value for money responsibilities.	• Document design and implementation of key controls and update understanding of key business cycles for any changes. • Substantive testing of limited areas within expenditure, payroll, and income.	• Substantive testing of all areas. • Completion of work in support of value for money responsibilities. • Detailed review of annual accounts and report, including Annual Governance Statement. • Review of final internal audit reports and opinion. • Completion of testing on significant audit risks.	• Year-end closing meetings. • Reporting of significant control deficiencies. • Signing audit reports in respect of Financial Statements. • Issuing Annual Audit Letter.
2021 Audit Plan	Verbal update to Audit and Governance Committee	Final report to the Audit and Governance Committee (ISA 260)	Any additional reporting as required
March - April 2021	March – April 2021	June – September 2021	September 2021

Ongoing communication and feedback

Covid-19 pandemic and its impact on our audit

Covid-19 pandemic and its impact on our audit.	
Requirements	The Covid-19 pandemic had a significant impact on the 2019/20 audit process, despite impacting relatively late in the year. We would expect there to be guidance as we approach year-end on accounting and disclosure requirements for 2020/21, where the impact has been much more extensive on all organisations. A key element of this will be communicating risks and governance impacts in narrative reporting, consistent with the Financial Reporting Council'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 Council'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.
Actions	While there may be greater clarity as we approach year-end, we would expect organisations as part of their reporting to conduct a thorough assessment of the current and potential future effects of the Covid-19 pandemic including: • Consideration of the impact across the Council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position; • The scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); 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.

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
We will consider the key impacts on the business such as: • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in income.	We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including: • Narrative reporting, including disclosures on financial sustainability • Principal risk disclosures • Impact on property, plant and equipment valuations • Impairment of non-current assets • Allowance for expected credit losses • Events after the reporting period and relevant disclosures	We will continue to assess 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 pandemic and its impact on our audit

Impact on annual report and financial statements	
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. Valuation reports at March 2020 typically identified a need to consider potential impairments in future periods, and this year's valuations may reflect more significant movements. The Council will need to consider the approach to its valuation (including any changes as a result of the pandemic). The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.
Expected credit losses	The Council will need to consider the level of provision required for expected credit losses under IFRS 9 and whether Covid-19 has had any impact on this.
Accounting for Covid-19 response measures	One of the main elements of the response to Covid-19 which will have specific accounting considerations are the Covid-19 grants that the Council has received. Specific consideration will need to be given as to whether the Council is acting as the principal or agent in relation to the various grants, whether the grants are specific or non-specific and whether any specific conditions attached to the grants have been fulfilled. The Council has prepared an assessment of Covid-19 grant income and the proposed treatment which we will review in due course.
Narrative and other reporting issues	The following areas will need to be considered by the Council: • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.
Events after the reporting period and relevant disclosures	Events are likely to continue to move swiftly, and the Council 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.

Materiality

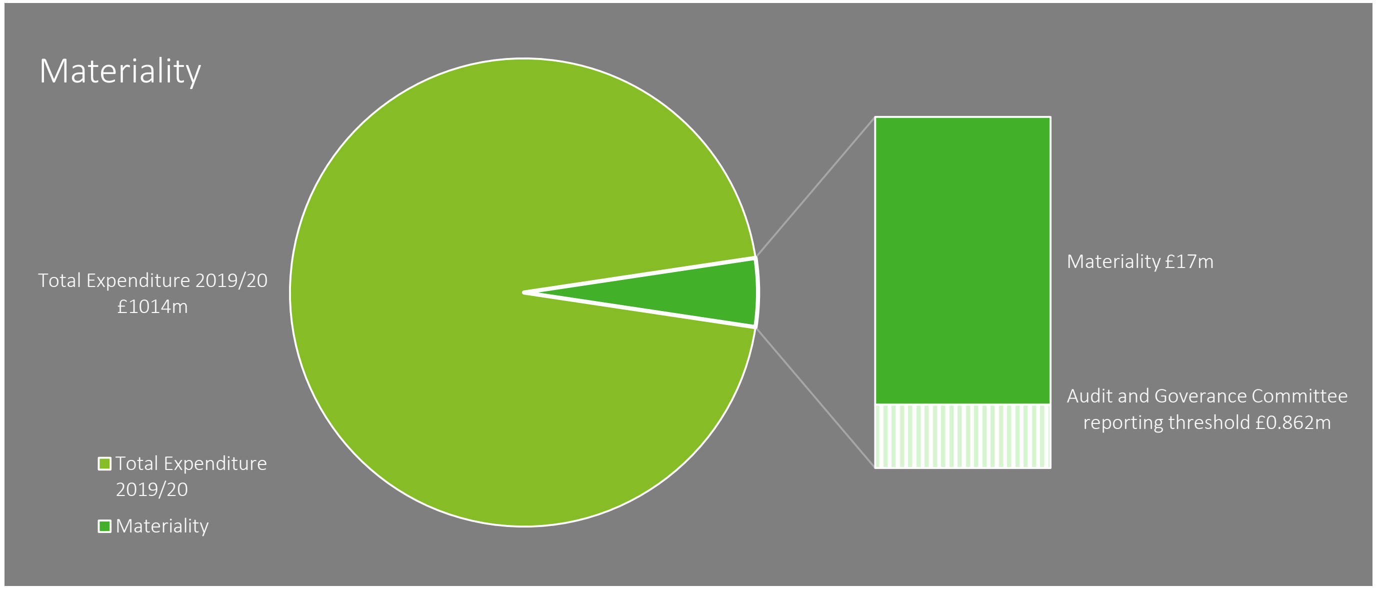
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined materiality as £17.2m (£17.4m in 2019/20), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.7% of total expenditure based on the 2019/20 accounts as the benchmark for determining materiality.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.862m (£0.873m in 2019/20).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit and Governance Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

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 annual 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.

Principal risk and uncertainties

- Cyber security
- Future levels of funding
- BREXIT
- Covid-19

IAS 1 Critical accounting estimates

- Useful lives of assets
- Fair value (of financial assets and liabilities, e.g. investment properties)
- Provisions
- Pensions liability
- Arrears (bad debt provision)

Changes in your business and environment

No significant changes (excluding the impact of Covid-19 on the Council's operating environment).

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

The next page summarises the significant risks that we will focus on during our audit. All the risks mentioned in the prior year Audit and Governance Committee report are included as significant risks in this year's audit plan.

Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Expected to be included in the Audit and Governance Committee report	Slide no.
Property Valuations	✓	✗	D+I	⚠	✓	14
Completeness of Accrued Expenditure	✓	✓	D+I	⚠	✓	15
Valuation of the Council's share of the Wiltshire Pension Fund Net Liability	✓	✗	D+I	⚠	✓	16
Management Override of Controls	✓	✓	D+I	⚠	✓	17

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

Low Level of Judgement ⚠

Medium Level of Judgement ⚠

High Level of Judgement ⚠

Significant risks

Risk 1 – Property Valuation

Risk identified	The Council holds a significant amount of property assets. 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 three year cycle, as at 28 February (one month before year end). As assets are revalued over a 3 year period, there is a risk that the value of assets not revalued in the current year could differ materially to their fair value at year end. Furthermore, we note that the accounting entries required to record property revaluations can be quite complex and are therefore inherently more risky than other accounting entries. Therefore, we have identified a significant risk that the value of property assets could materially differ from the year end fair value as a result of material changes in the value of assets not subject to revaluation in the current year. There is also a risk that the valuations in the accounts may be incorrect if errors are made in processing the relevant accounting entries. This risk has been updated for 20/21 from 19/20 using our knowledge from the prior year audits.
Our response	We will test the design and implementation of key controls in place around how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation; We will test the design and implementation of key controls in place to prevent/identify any errors made in processing the valuation accounting entries; We review and challenge the Council's assessment of whether there have been any material changes in the values of assets revalued as at 28 February; We will review and challenge the Council's assessment of whether there have been any material changes in the value of assets not revalued in the current year; Where appropriate, we will utilise our internal property specialists to support the audit team's assessment as to whether there have been any material changes in property values; We will select a sample of assets not revalued in the current year to determine whether they had been included in the previous two year's revaluations (and therefore covered by the three year valuation cycle); and We will select a sample of revalued assets to determine whether the correct accounting entries have been made.

Significant risks

Risk 2 – Completeness of Accrued Expenditure

Risk identified	Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure, particularly in relation to year end accruals. In our previous audits we identified that the majority of expenditure does not follow the purchase order process. As a result of this, there is a risk that the Council may understate accruals at year end. There might also be an incentive for management to understate expenditure around the year end in order to present a more favourable year end position, and given the lack of strong purchase order controls, understatement of accruals is an area that could be manipulated. This significant risk relating to the completeness of accrued expenditure is in line with our significant risk for the 2019/20 audit.
Our response	We will obtain an understanding of the design, and test the implementation, of the key controls in place to ensure the completeness of accruals; and We will perform focused testing in relation to the completeness of accruals through testing of post-year end invoices received and payments made.

Significant risks

Risk 3 – Valuation of the Council's share of the Wiltshire Pension Fund Net Liability

Risk identified	The net pension liability is a material element of the Council's balance sheet. The Council is an admitted body of the Wiltshire Pension Fund. The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Council's valuation – e.g the discount rate, inflation rates, and mortality rates. These assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.
Our response	We will obtain an understanding of the design, and test the implementation, of the key controls in place in relation to the review of the assumptions by the Council; We will evaluate the competency, objectivity and independence of Hymans Robertson the actuarial specialist; We will review the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used; We will review the pension related disclosures in respect of actuarial assumptions in the financial accounts for consistency with the Actuary's Report.

Significant risks

Risk 4 – Management Override of Controls

Risk identified	In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness of accrued expenditure, pension valuations and the Council's property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	We will test the design and implementation of key controls in place around journal entries and key management estimates; We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest; We will review accounting estimates for biases that could result in material misstatements due to fraud; and, 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 Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Significant risks

Risk 4 – Management Override of Controls Continued

Control Environment

We note that a number of control deficiencies were identified in relation to the risk of management override of controls in the 2018/19 and 2019/20 audits. This included audit findings raised in the ISA260 report relating to the posting of journals, reviews of the general ledger codes and monthly budget management.

We would therefore like to highlight that the same control deficiencies have been identified during the 2020/21 interim audit and emphasise the importance of a strong control environment at the council to minimise the risk of fraud and material misstatement.

Findings

Control	Control Deficiency/Finding
There is segregation of duties when posting journals; a second member of staff is required to approve journals prepared by another staff member.	SAP has two types of journal access rights for finance employees; Park Access & Park and Post/Authorisation Access. Park Access allows a member of staff to prepare journals within the system which are then 'parked' until they are approved by a member of staff with Post Access. However, employees with 'Park Access' can upload an excel document with a number of journals and the journals can be automatically posted within SAP without secondary review. Employees with 'Post Access' can prepare and post journals directly into SAP, without a secondary review.
Due to the lack of segregation of duties highlighted above, we identified the below further controls which would help to mitigate the management override of controls risk.	
On a quarterly basis, a report is run directly from SAP for all journals posted during the period by journal value and by staff member who posted the journal. This report is reviewed by the Chief Accountant/Senior Finance Employee to identify if any journals are posted by unauthorised staff members and inconsistencies are investigated.	As the focus of the review is on the users who are posting journals, rather than the journals themselves or their value, we have not deemed the design of this control to be effective in mitigating the management override of controls risk. We have also identified that no formal evidence could be provided to show that this control was in operation during the financial year and we were informed that the control did not operate consistently throughout the financial year due to the Chief Accountant leaving in August 2020 and no one else taking responsibility for this control.
On a monthly basis, budget monitoring of I&E cost centres is carried out by budget managers and a detailed narrative for any large variances is documented. This is presented monthly to the Corporate Leadership Team (CLT) meetings and quarterly to Members.	We have identified that, although budget monitoring occurs at the Council, the control has not been formalised appropriately. We sampled a P6 report to test the implementation of this control, and were unable to obtain the reviewed spreadsheet detailing the investigation of variances, nor evidence of the report being discussed. We were informed that the threshold for budget managers to investigate variances is at their discretion. We were also informed that this control was only operating on a quarterly basis from Q2.
On a monthly basis, the Chief Accountant reviews each balance sheet GL code against the previous month values and investigates the reasons for any unexpected variances (including suspense accounts).	We have identified that no formal evidence could be obtained that this control occurred in the financial year. We were informed that the control did not operate consistently nor regularly throughout the financial year, due to the Chief Accountant leaving in August 2020, and therefore this control was not performed.

Value for Money

Areas of focus

Value for Money

There is a new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities. This introduced significant changes to the requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources). The NAO issued Auditor Guidance Note 03 (AGN03), Value for Money, in October 2020 setting out more detailed guidance on how the new requirements should be implemented. Key features of the requirements include:

For all bodies, the auditor will need to provide a public narrative commentary against the Value for Money criteria in a new "Auditor's Annual Report" (AAR), to be issued alongside the audit opinion for Local Authorities. This commentary will include a summary against each of the reporting criteria, setting out the work undertaken, and judgements and local context relevant to the findings. This commentary needs to be supported by more extensive work to understand the body's arrangements to secure economy, efficiency and effectiveness, to support this commentary and to identify whether there are risks of significant weaknesses in arrangements.

If a risk of significant weaknesses is identified, additional work is required to determine whether there are significant weaknesses and to make relevant recommendations if this is the case on a timely basis, which will also be explained in the Auditor's Annual Report. The AAR will also include follow up on previous recommendations in respect of significant weaknesses and whether they've been implemented satisfactorily. The audit opinion will continue to include reporting by exception, though now this will be where the auditor has identified a significant weakness in arrangements rather than an overall conclusion on arrangements. The three criteria that would be considered in Value for Money work are be:

Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services;

Governance: How the body ensures that it makes informed decisions and properly manages its risks; and

Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

We will:

- Undertake VfM planning work under the revised procedures.
- As the detailed impact on scope becomes clearer, we will discuss and agree the impact of the required scope changes with management.
- Our year-end reporting will include our draft findings ahead of issue of the Auditor's Annual Report.

Reporting hot topics

Increased focus on quality reporting

Deloitte view

The expectations of corporate reporting, reflected in the FRC's monitoring and enforcement priorities, are increasing. While the focus is primarily on corporates, we highlight these areas where improved disclosures would help meet stakeholder expectations.

The potential impacts of Brexit

Depending upon events, organisations may be preparing annual reports against the backdrop of continued uncertainty around the UK's future relationship with the EU. Even with a deal, the future basis of UK-EU trade will affect the longer-term viability period of 3-5 years and a longer consideration of prospects.

ACTION: Depending upon events, we would expect to see annual reports reflecting at least:

- relevant risks and uncertainties, and actions taken to manage those risks; and
- consideration whether any impact on critical accounting judgements and areas of estimation uncertainty.

We will discuss with the Council closer to the time areas where disclosures may be appropriate.

Climate-related risks

The report by the Intergovernmental Panel on Climate Change (IPCC) has made it clear that prompt and decisive action on climate change is required from governments, businesses and individuals alike.

The recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) are gaining momentum. The government has proposed mandatory TCFD disclosures by 2022, and the FRC is undertaking a major review of how organisations assess and report the impact of climate change. The FRC expects organisations to disclose how they have taken climate change into account in assessing the resilience of the business model, its risks, uncertainties and viability both in immediate and longer term.

Investors are challenging companies that are not factoring the effects of the Paris Climate Agreement into their critical accounting judgements and are not disclosing comprehensively these judgements, assumptions, sensitivities and uncertainties.

ACTION: Clearly articulate how your organisation is addressing climate change e.g.

- whether this is a principal risk and how it is being managed; and
- its impact on the business model, the viability statement and the key assumptions and projections in impairment reviews and valuations (including in assessing remaining asset lives).

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Board (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 *Financial Instruments*, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020. For Local Government bodies, this will be March 2021 year ends and later.

We summarise on the next few slides how this will impact our audit.

> *"There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates"*
>
> FRC letter to the IAASB, July 2017

Area of change	Impact on our audit	Impact on the officers
Assessment of oversight and governance relating to estimates	In connection with our planning work to understand the entity and its environment, including internal control, we will specifically inquire regarding management's processes, and the oversight and governance of those processes relating to accounting estimates.	You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof.

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the officers
Identification of inherent risk factors; separate assessment of inherent risk and control risk Objectives-based work effort requirements.	Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them. We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty.	You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the financial statements.
Enhanced “stand back” requirement, to evaluate the audit evidence obtained.	We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence.	You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence.

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the officers
Enhanced requirements about whether disclosures are "reasonable".	The extant ISA 540 required us to evaluate whether disclosures were "adequate". The change to "reasonable" will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.	You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty.
New requirements when communicating with those charged with governance.	In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors.	You should expect increased reporting in relation to accounting estimates.

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 financial statements 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 management 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 financial statements and the other procedures performed in fulfilling our audit plan.

Use of this report

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

Other relevant communications

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

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

Deloitte LLP

Cardiff | April 2021

Appendices

Fraud responsibilities and representations

Responsibilities explained

Your 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.

Our responsibilities:

- We are required to obtain representations from your management 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 financial statements 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 fraud in relation to the completeness of accrued expenditure and management override of controls as key audit risks for your organisation.

Fraud Characteristics:

- Misstatements in the financial statements 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 financial statements 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 signed on behalf of the Council:

- 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 financial statements 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) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management 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 management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has 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.

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of Wiltshire Council and will reconfirm our independence and objectivity to the Audit and Governance Committee for the year ending 31 March 2021 in our final report to the Audit and Governance Committee .
Fees	There are no non-audit fees.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's approach for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Council, its officers, senior managers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees

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

	Current year £'000
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	169
Total audit	169
Audit related assurance services	0
Other assurance services	0
Total assurance services	0
Total non-audit services	0
Total fees	169

We note that the fee above represents an increase to the scale fee for the audit of £129k. The revision to the fee was communicated to management in March 2021 and will still need to be agreed with PSAA.

Our approach to quality

AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports