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Wiltshire Council

Wiltshire Council

Update report to the Audit and Governance Committee on the 31 March 2020 audit

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Partner introduction

The key messages in this report:

I have pleasure in presenting our update report to the Audit and Governance Committee for the 2020 audit. I would like to draw your attention to the key message of this paper:

Audit Progress

As the Audit and Governance Committee is already aware, the 2019/20 audit has not progressed in line with the original timeframes. As part of our report we are providing an update on Quality Indicators which have an impact on the execution of our audit. These can be found from page 5. Recently, the new Chief Accountant and Strategic Finance Accountant have made progress in resolving some of the issues which originally impacted on the timeframe for completing the audit. Unfortunately, as the audit was not completed within the originally agreed timeframe, or revised timeframe, it becomes a challenge for the audit team to allocate resource to progress the audit to completion.

We are committed to working with the Council to help ensure that the 2020/21 audit process is undertaken within the expected timeframes. In March 2021, we facilitated a Workshop for the Council's finance staff to discuss various topics (such as the audit process, the different elements of our audit work and good practice) and set out our expectations in terms of the quality of working papers and the timeliness of receiving responses.

We are separately presenting our Audit Plan for 2020/21 to the Audit and Governance Committee, and would like to note that progress on the 2020/21 audit has been satisfactory. The Council has produced a very detailed closedown timetable for the 2020/21 accounts, and we have aligned our audit work plan to this. We will check in regularly with the Chief Accountant to determine whether the closedown is progressing in line with the timetable.

In terms of concluding on the 2019/20 audit, whilst the majority of our audit fieldwork has been completed, this still needs to undergo our full review processes and until the point that the work is fully reviewed we cannot conclude on our audit. As such, the conclusions reached to date should be taken as draft and are still subject to change. Progress with our review process is expected to be slow over the coming month due to other client commitments, and we don't anticipate being able to complete our review process and reporting any earlier than mid-July.

Ian Howse
Lead audit partner

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.

Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

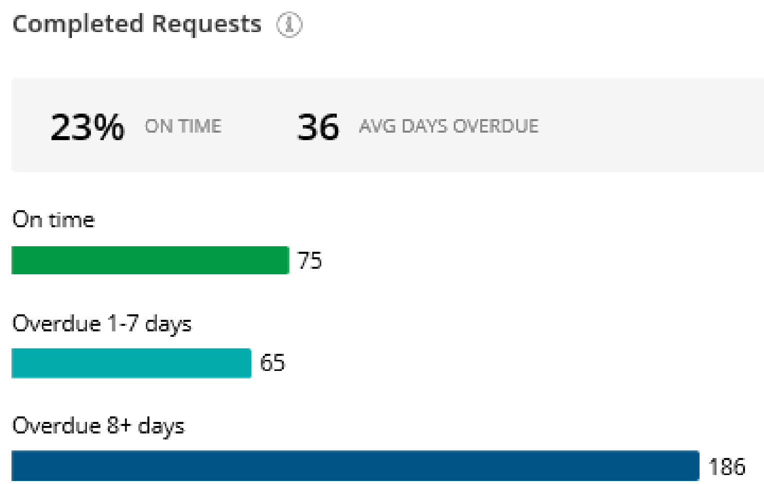
Area	Grading	Reason
Adherence to deliverables timetable	!	Our audit was initially planned based on a 31 May 2020 deadline for receiving draft accounts. In April, as a result of the Pandemic, we agreed a later deadline of 30 June to receive the draft accounts and rearranged our audit staffing accordingly. Management raised concerns at the beginning of June around the 30 June deadline as the Council's valuer had been delayed in the property valuation work as a result of Covid restrictions. It was agreed that the draft accounts would be received at the beginning of August, but that we would start the audit in July, focusing on auditing disclosure notes in the accounts which did not rely on information relating to property valuations. A list of areas to commence auditing in July was shared with the Chief Accountant in early June. As at 22 July, we had not received any information on approximately half of the areas we had planned to audit in July. We were updated at the end of July that management were aiming to now have the draft accounts produced for early-mid August. On 18 August we were informed that the draft accounts would not be ready until 24 August. The first set of draft accounts received were dated 28 August 2020.

! Significant impact on the audit ! Moderate impact on the audit No issues noted

Quality indicators (continued)

Impact on the execution of our audit

<table>
<tr><th>Area</th><th>Grading</th><th>Reason</th></tr>
<tr><td>Adherence to deliverables timetable (continued)</td><td>!</td><td>The timeframes to receive information to support the audit has not been sufficient. We use a site called Deloitte Connect to upload and receive responses to audit requests. Connect provides us with the below high level analysis (as at 14 April 2021):



For context, we usually expect all queries and requests to be responded to within 3-5 working days. Where requests are uploaded on to Connect and the due date assigned is not going to be achievable, we encourage management to communicate this to us to agree a new due date.

We note that more recently, the response time for audit requests has improved significantly. As at 14 April 2021 there was only one outstanding request which was recently added to Connect.</td></tr>
</table>

Quality indicators (continued)

Impact on the execution of our audit

Area	Grading	Reason
Access to finance team	!	We've continued to develop a good relationship with the Finance Team. The Chief Accountant leaving the Council early in the audit, in August 2020, did, understandably, have a big impact on the team. Following on from this it was clear that the Finance Team did not have sufficient resource to manage the audit process and keep up with other workload (which was also being impacted by other factors such as Covid-19). The Council has since recruited a new Chief Accountant whose focus is on the 2020/21 audit and progress with our planning and interim audit has been very pleasing. The Council also brought in a Strategic Finance Accountant in January 2021, currently in role until the end of September 2021, who is supporting the completion of the 2019/20 audit. We've noticed a significant improvement in the audit process following the introduction of these two members of staff, especially in terms of the timeliness of responses to audit queries and requests, but also in the quality of responses being provided.
Quality and accuracy of management accounting papers	!	Some of the information provided as part of the audit has been poor, and there have been instances where the impact of this on the audit has been significant. At the same time we recognise that there have been certain areas where the information provided has been satisfactory. As an example of an area where the information provided hasn't been at the expected standard we note that the Council is unable to generate a report listing all currently outstanding debtors and creditors which reconcile to the debtors and creditors notes in the accounts. Instead, transaction listings are produced which show the full transaction history on the relevant ledger codes. These contain thousands of entries, with various transactions coming in and out of the listing, making it very difficult to reconcile these listings to the balances per the accounts we're aiming to test and to sample debtors/creditors for testing which relate to the balances in the accounts. This is a result of limitations with the finance system, and whilst the Finance Team have adapted to work around limitations such as this, it's not efficient for an audit and means that management do not have useful information to use in checking the accounts themselves.

Quality indicators (continued)

Impact on the execution of our audit

Area	Grading	Reason
Quality of draft financial statements	!	The first draft version of the financial statements received were well below the level of quality we would expect, which is reflected by the various errors noted later in this report. In addition, we have also received various versions of the draft financial statements and are currently on version 4. For versions 1 – 3 there was no record maintained of the changes made to the accounts and the reasons for these. Version 4 of the accounts was provided to us in mid-February following a thorough review by the Strategic Finance Accountant and contained a significant number of changes. This was accompanied by a tracker noting the changes made and supporting working papers. We would expect the draft accounts to go through a rigorous internal review and quality assurance process before being presented for audit and for the public inspection period and we have raised a recommendation on this later in the report. Further, we would only usually expect to work with two versions of the accounts – the first draft version and the finalised version. Each set of accounts provided to us requires a significant amount of extra work for the audit team for numerous reasons, such as: the updated accounts need to be fully reviewed, compared with previous versions to identify/confirm the changes made, updated balances need to be traced through to audit testing to ensure that these agree, and very often additional audit testing needs to take place in respect of amended figures. This is a process which is made harder by no tracking document being maintained.
Control deficiencies identified	!	We have not placed any reliance on controls as part of our audit, however deficiencies in controls have had a significant impact on our audit. For example, the issue identified around segregation of duties in journal postings, and our inability to identify a mitigating control, has been factored into the considerations on performance materiality level for our audit. A full list of control deficiencies can be found from page 16.

Quality indicators (continued)

Impact on the execution of our audit

Area	Grading	Reason
Volume and magnitude of identified errors	!	The volume of errors identified within the draft accounts well exceeds our expectations. These are set out further within this report. Having a robust review and quality assurance process for the draft accounts should improve this significantly.

Our audit explained

We tailor our audit to your business and your strategy

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.

Determine materiality

When planning our audit we set our materiality at £17m based on 1.7% of total 18/19 expenditure. This figure has been updated based on the 2019/20 draft accounts resulting in a materiality level of £17.4m. We report to you in this paper all misstatements above £874k.

Scoping

Our planning report set out the scoping of our audit. We are completing our audit in line with our audit plan.

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 to date on these risks in this report.

Update on significant risk areas

We draw to the Audit and Governance Committee's attention to our updates on the significant audit risks.

Other findings

As well as our updates 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.

Our audit report

Our audit report will be drafted once our audit has concluded.

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. Furthermore the Council completes the valuation as at 28 February each year, 1 month before the year end. Any changes to factors (e.g. build costs) 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, particularly given that valuations are inherently judgemental and include a number of assumptions.
Our response	We have tested the design and implementation of key controls in place around the property valuation and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation; We are reviewing 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 have used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its asset values. This review identified areas for improvement which will be communicated to management in due course. We are testing a sample of revalued assets and determine whether the movement has been recorded correctly in the accounts. We will provide an update to the Audit and Governance Committee once our work on this significant risk is fully complete and fully reviewed. We note that the valuer has identified in their report a material uncertainty in relation to valuations at 31 March 2020 due to the impact COVID19 on market transaction volumes. This material uncertainty has been disclosed in the Financial Statements and we expect to refer to it in our opinion.

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. During our 2018/19 audit we identified that approximately 80% 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 may 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.
Our response	We obtained an understanding of the design, and tested the implementation, of the key controls in place to ensure the completeness of accruals; and We are performing focused testing in relation to the completeness of accruals through testing of post-year end invoices received and payments made. We will provide an update to the Audit and Governance Committee once our work on this significant risk is fully complete and fully reviewed.

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 obtained an understanding of the design, and tested the implementation, of the key controls in place in relation to the review of the assumptions by the Council; We evaluated the competency, objectivity and independence of Hymans Robertson the actuarial specialist; We reviewed the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used; We reviewed the pension related disclosures in respect of actuarial assumptions in the financial accounts for consistency with the Actuary's Report. We will provide an update to the Audit and Governance Committee once our work on this significant risk is fully complete and fully reviewed.

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 tested the design and implementation of key controls in place around journal entries and key management estimates; We risk assessed journals and selected items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest; We reviewed accounting estimates for biases that could result in material misstatements due to fraud; and, We have not identified any significant transactions 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. We will provide an update to the Audit and Governance Committee once our work on this significant risk is fully complete and fully reviewed.

Your control environment and findings

IT systems

As a result of our work on your key IT systems we raised a number of recommendations which were communicated to management with management responses being provided in April 2020. These consisted of five medium priority recommendations (two of which were first raised in 2019) and two low priority recommendations (one of which was first communicated in 2019).

We have not included the recommendations within this report as they did not have a significant impact on our audit.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
There were numerous errors within the first three sets of draft accounts presented for audit. Our work on version four is ongoing.	High	It is recommended that a robust review is undertaken of the accounts which are presented for audit, along with any subsequent versions of the accounts containing amendments. It is also recommended that the Council completes the CIPFA checklist as part of the closedown process, and references each requirement within the checklist to where the requirement has been satisfied within the accounts, or note that the requirement is not applicable with an explanation why. The completed checklist should then be reviewed along with the accounts prior to being presented for audit. In addition, it is also recommended that the working papers which support the balances in the accounts also undergo a review and quality assurance process in order to reduce errors in the accounts.	A detailed 2020-21 closedown timetable has been developed which includes working paper requirements [cross referenced to external audit requests] mapped to the financial statements and disclosure notes, which have a named individual responsible for completing the working paper(s). Additional control and quality assurance reviews will be implemented as part of the closedown process to ensure the accounts are presented in line with requirements. The CIPFA disclosure checklist will form part of this process and will be fully completed and reviewed prior to publication of the draft accounts and being presented for audit. This checklist will also form part of robust working papers that are being designed and implemented as part of the financial accounting improvement plan.
No listing is maintained setting out all properties subject to revaluation and when they were last revalued.	Medium	It is recommended that a listing is maintained detailing all assets subject to revaluation, along with their date of last valuation, and that this is reviewed on an annual basis to check that all assets due for a revaluation are included in the list sent to the valuer’s.	The Asset Management system that is used holds dates when assets were revalued. A full report will be run every year to ensure that all assets that are due for a revaluation are valued in line with the accounting policy. A check will be made to ensure that all assets are valued with appropriate frequency and there are no erroneous dates.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
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.	High	It is recommended that segregation of duties in relation to journal postings is enforced, or an alternative control is implemented to mitigate the risk that journals can be posted by staff without approval.	The council has to consider the costs of implementing such a control as suggested, which are potentially high. Action to address the issue would include the need to reconfigure SAP and to pay to do so and prioritisation of this work considering a new system us due to be implemented during 2022/23 financial year. Wiltshire Council officers view the significance of the risk associated with potential lack of journal authorisation by a second person as minimal. From a fraud perspective, there are controls already in place in the AP and AR systems, including segregation of duties around key tasks. Journals do not actually involve expenditure or income, so the inherent risk to the council is absolutely minimal. Regular internal audit work on our AP and AR systems have not demonstrated any risks that would need an additional authorisation to journals in the general ledger. This work provides on-going evidence of the strength of controls in those systems fundamental to the Council's internal control framework. Each user of SAP has an individual ID that is registered against each transaction that the user makes. Any unusual suspicious journals are going to be traceable to a single member of staff. There is an additional check being implemented that involves reviewing the officers who have processed journals on a quarterly basis to ensure they are relevant and trusted finance officers. Also, the council's budget monitoring processes acts as another control in order to pick up rogue journals. Budget management / service budget holders would be surprised to see any transactions on their codes that they did not recognise and would investigate. We have provided a full journal list to Deloitte and none have been found to be fraudulent.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
We sought to identify further controls to mitigate the management override of controls risk presented by the lack of segregation of duties in journal postings. 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 should be 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 were unable to evidence any formal review of budget variance reports by budget managers so we cannot determine what challenge or investigation is undertaken. We were informed that the threshold for budget managers to investigate variances is at their discretion.	Medium	It is recommended that segregation of duties in relation to journal postings is enforced, or an alternative control is implemented to mitigate the risk that journals can be posted by staff without approval. In addition, it is recommended that the process for budget managers to undertake a review and investigation of their budget reports is formalised and an audit trail is maintained.	Robust budget monitoring processes are followed on a regular basis, with high risk and volatile budgets being reviewed monthly and all budget areas at least quarterly. This process includes a review from a finance officer to ensure independent challenge is carried out. As part of an improvement action plan for finance and accountancy the implementation of a checklist for those undertaking budget monitoring processes will be designed and implemented to ensure all relevant areas are discussed and a formal note made to ensure consistency of application is evidenced.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
We sought to identify further controls to mitigate the management override of controls risk presented by the lack of segregation of duties in journal postings. On a quarterly basis, a report should be 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 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 implemented 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.	Medium	It is recommended that segregation of duties in relation to journal postings is enforced, or an alternative control is implemented to mitigate the risk that journals can be posted by staff without approval.	Agreed – this control is set but has not been followed. The Assistant Director – Finance will ensure it is fully implemented and quarterly checks carried out to support mitigation of the system process weaknesses for journal approval. Additional Balance sheet controls have been implemented following the appointment of a Chief Accountant and a comprehensive schedule listing balance sheet GL codes, the officer responsible for monitoring and producing reconciliation statements and the frequency of these reconciliations is maintained. This is reviewed by the Chief Accountant.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
We sought to identify further controls to mitigate the management override of controls risk presented by the lack of segregation of duties in journal postings. On a monthly basis, the Head of Finance (Corporate) should review each balance sheet GL code against the previous month values and investigate the reasons for any unexpected variances (including suspense accounts). We have identified that this control had not been in place since the departure of the Head of Finance (Corporate). The Chief Accountant undertook a year end full review as at 14 July 2020. We do not deem this to mitigate the risk of Management Override of Controls as there are thousands of journal postings so this control cannot be relied upon to identify incorrect journal postings.	Medium	It is recommended that segregation of duties in relation to journal postings is enforced, or an alternative control is implemented to mitigate the risk that journals can be posted by staff without approval. In addition, it is recommended that the review of balance sheet GL codes is undertaken on a monthly basis.	Additional Balance sheet controls have been implemented following the appointment of a Chief Accountant and a comprehensive schedule listing balance sheet GL codes, the officer responsible for monitoring and producing reconciliation statements and the frequency of these reconciliations is maintained. This is reviewed by the Chief Accountant. In additional to this control, as part of the improvement plan additional internal reporting of balance sheet items is being designed so that the Assistant Director – Finance and Corporate Director of Resources have full oversight of the balance sheet monitoring alongside the revenue and capital monitoring.
As part of the controls to ensure all potential liabilities are disclosed in the Financial Statements there should be a documented process for the Finance team to consult with the legal team. Whilst we understand the difficulties of doing this in the COVID environment the failure to complete this process increases the risk of potential liabilities being unrecorded. Our substantive testing has not however identified any undisclosed potential liabilities.	Medium	It is recommended that a meeting takes place between the Finance Team and the Legal Team at year end and that all potential legal liabilities are discussed, with the results of this meeting minuted.	Agreed – as part of the assessment of year end liabilities the finance team will consult with the legal team and document consideration of liabilities discussed. This will ensure adequate evidence is provided of liabilities disclosed (accrual, provision or contingent liability) and those not disclosed due to not meeting the criteria for disclosure.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
The Council did not submit the first Whole of Government Accounts return by the 30 September 2020 deadline. This was instead submitted in February 2021.	High	It is recommended that the Council introduce controls to ensure that the Whole of Government accounts return is completed , reviewed and submitted by the required deadline.	Agreed – this has been incorporated within the agreed timetable for the 2020/21 accounts and audit process.
We have identified that approximately 15% of purchases follow a purchase order (PO) process, whilst the remainder follow an alternative 'non-PO' process. We identified this by obtaining the Accounts Payable scorecard which details some KPIs for the AP team, such as time from invoice received to payment and the types of invoices being raised. This percentage in the prior year was nearer 20% so performance is declining. As a result, there is a risk that inappropriate purchases are made without a PO and authorisation. There is also a risk that year end expenditure may not be complete because purchases committed to are not yet available on the finance system.	High	It is recommended that the Council introduces a full PO process which all purchases should follow where appropriate.	The implementation of a new ERP and the implementation of standard processes as part of the Evolve programme will help support compliance to the control processes. Significant change and training support is included in the programme plan to help understand and address non-compliance.
We identified that the reconciliation between SAP and Asset Manager system is performed by the Chief Accountant but there is no review of this reconciliation.	High	It is recommended that the reconciliation between SAP and Asset Manager is reviewed (by someone more senior than the preparer).	Agreed – this has been incorporated within the agreed timetable for the 2020/21 accounts and audit process.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
During our Design and Implementation (D&I) testing of controls over accrued expenditure, we identified one item for £3,060.90 where the invoice date was 01/09/2019, the Goods Received Note (GRN) date was 12/12/2019 and a delivery date (for services) on 11/12/2019, however the system showed the invoice received date as 18/06/2020. We have evidenced the invoice which related to 'on track education services' and was invoiced to the SEND Department at Wiltshire Council. We were informed that the invoice was input in the system late due to a workload issue in which the requisitioner did not have sufficient time to input the invoice into the system immediately and therefore this was input late and appeared as though the invoice was not received until after year end. The invoice was therefore input into the system 9 months after the Council had received it. This highlights a weakness in the Council's purchasing controls. Where invoices are posted late to the system there is a risk that services/goods received prior to the year end are not accrued especially where a GRN is not raised pre year end. Also, the council will not have paid the supplier for this invoice for a significant period of time so there is a risk of reputational damage to the Council.	Medium	Whilst the amount identified in this specific instance isn't significant, we've only looked a this one invoice as part of our D&I testing, so there is a risk that this may be a wider issue. It is recommended that invoices are processed and paid in a timely manner and that controls are introduced to monitor this.	The implementation of a new ERP and the implementation of standard processes as part of the Evolve programme will help support compliance to the control processes. Significant change and training support is included in the programme plan to help understand and address non-compliance.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
We have not been able to identify a control in place relating to how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation.	High	It is recommended that on an annual basis the Council undertakes a review of assets not scheduled for revaluation to determine whether these are likely to be materially impaired or whether there may have been any changes in value which result in a material difference between the market value and the carrying value of the asset.	A review of impairment events will be undertaken and evidenced and has been incorporated within the agreed timetable for the 2020/21 accounts and audit process.
The reconciliation between Asset Manager and valuers report which is prepared by the Capital Management Accountant is not reviewed by another member of staff.	High	It is recommended that the reconciliation between Asset Manager and the valuer's report is reviewed.	Agreed – this has been incorporated within the agreed timetable for the 2020/21 accounts and audit process.
The Council's valuer does not provided updated useful lives for the properties revalued. As a result of this there are a number of properties which have not had their useful lives updated, so there is a risk that useful lives are not accurate which may affect the depreciation charge. Our work on the impact of this is ongoing.	Medium	It is recommended that the useful lives of fixed assets are reviewed and updated on a regular basis.	Agreed – this has been incorporated within the agreed timetable for the 2020/21 accounts and audit process.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Severity	Deloitte recommendation	Management response and remediation plan
Our review of the year end bank reconciliations found evidence of preparer sign off but no evidence of reviewer sign off.	High	It is recommended that bank reconciliations are reviewed.	Additional Balance sheet controls have been implemented following the appointment of a Chief Accountant and a comprehensive schedule listing balance sheet GL codes, the officer responsible for monitoring and producing reconciliation statements and the frequency of these reconciliations is maintained. This is reviewed by the Chief Accountant. Bank reconciliations form part of this listing.
We were informed that there are a number of assets included in the disposals figure within the 2019/20 accounts which were actually disposed of in previous financial years, however were not recorded as disposals in the relevant financial statements. Our work in relation to disposals is ongoing including considerations on the impact of this point.	High	It is recommended that the Council reviews the process in place for recording disposals in the fixed assets system, and what controls are in place to ensure that this system is kept up to date with disposals.	Agreed – this has been incorporated within the agreed timetable for the 2020/21 accounts and audit process.

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

- An update our audit work.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

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

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.

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

Deloitte LLP

Cardiff | 20 April 2021

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).

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in current year					
Academy cash balances	[1]		(0.323)		0.323
Pension liability - Goodwin	[2]	3	(3)		3
PFI/loan understatement	[3]	*	*	*	*
Aggregation of misstatements individually < £xm					
Total		**3**	**(3.323)**		(3.323)

[1] On inspection of the School’s cash breakdown, we identified 4 balances relating to Academy’s which should not be recognised by the Council.

[2] Although the Employer is aware of the Goodwin case, we understand that it has not been reflected in the DBO; our view is that it should be. Based on general information that we have from Hymans Robertson, we understand that for a typical employer's section, the Goodwin impact cost could be of the order of 0.2% of the DBO, i.e. around £3m.

[3] This misstatement relates to the Monkton Park PFI contract which was revised in January 2011 to become a long term loan with Barclays bank. In addition, investigation by the Strategic Finance Accountant has identified that the outstanding liability is approximately £4m understated. For the 2019/20 accounts, this is still being shown as a PFI, rather than a loan, and the liability has not been restated. Management intend to correct this for the 2020/21 accounts given that the balance is not material. We will be completing audit work to confirm the value of the understatement and the resulting accounting entries needed to correct the error.

Audit adjustments

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) OCI/Equity £m
Cash Flow Statement	[1]				
HRA – Repairs and Maintenance	[2]	(1.457)			1.457
Total		**(1.457)**			**1.457**

[1] We identified errors in the prior year figures included in the Cash Flow Statement and associated notes as well as an error in the number included for the adjustment for non cash movements in 2019/20 caused by the incorrect signs being applied to investing and financing activities. Also, the first three versions of the draft accounts did not include the movement on PFI contracts for 2018/19 of £3,351k in note 41.

The Council recognised there were issues in the presentation of the Cash Flow Statement and, following a review of the accounts, have subsequently completely restated the Cash Flow Statement. We are undertaking our audit testing on the current version of the Cash Flow Statement and will report any further misstatements identified.

[2] In the Draft Financial Statements the HRA repairs and maintenance expenditure was shown as £6,884k. This did not agree to the working paper breakdown and was subsequently amended to £5,427k.

Audit adjustments

Disclosures

Disclosure misstatements

The following corrected disclosure misstatements have been identified up to the date of this report. We note that some of these are yet to be amended in the accounts, but management have agreed to these amendments.

Disclosure misstatement identified
There was a remapping of the current year CIES headings due to changes in the structure of the Council departments. The Council failed to remap the prior year comparatives based on the new mapping when the draft Financial Statements were prepared. The prior year comparatives have since been remapped and we have undertaken audit testing of this which yet to be completely reviewed (including a review by our technical team looking at the presentation of the restatement).
The draft Financial Statements included a disclosure for a contingent liability in relation to business rate claims by NHS trusts. The legal case was turned down by the courts in December 2020 and therefore we consider this an adjusting post balance sheet event and the disclosure in the financial statements should be amended to remove the reference to a contingent liability.
In the draft Financial Statements Note 1 of the Collection Fund Accounts showed a Council Tax base of 184,897. As per cabinet meeting minutes the correct Council Tax base is 186,013. The difference is due to a one-off adjustment for single person discounts which had not been reflected in the first version of the draft Financial Statements.
The disclosed housing stock levels in note 1 to the Housing Revenue Account in the draft Financial Statements were incorrect as they did not agree to the valuer's report. Whilst the largest difference was 13 in relation to 2 bedroom flats each number was incorrect. The disclosure was updated in version two of the draft Financial Statements. The Council identified the error on review of work handed over by a departing staff member.
The draft Financial Statements Note 4 to the HRA did not include the Prior Year (PY) comparatives. This was amended in version four of the draft Financial Statements to include the prior year comparators. Also, in version four of the draft Financial Statements the analysis was changed for both years and this has also resulted in the prior year column now being headed as re-stated. Our work on this restated note is ongoing.

Audit adjustments

Disclosures

Disclosure misstatements

The following corrected disclosure misstatements have been identified up to the date of this report.

Disclosure misstatement identified
In the draft Financial Statements, the related party balance disclosure for Wiltshire Pension Fund, in note 12, had not been updated from 2018/19 so the 2019/20 disclosure was incorrect. The disclosure was amended from £1.478m to £1.818m in version four of the draft Financial Statements.
In the draft Financial Statements the employee expense and other services expense lines in Note 1b for 2018/19 did not agree to the prior year audited financial statements. The employee expenses hadn't been updated from 2017/18 and this meant the other services expense line was wrong too as it is formula driven. The Council have then restated the 2018/19 comparators and our work in relation to this re-statement is ongoing.
We identified that the Council received a grant of £11.6m in relation to Covid-19 which is being recognised within Corporate Income in the CIES, but was not disclosed in Note 6 Grant Income in the draft Financial Statements. This resulted in the Council revisiting Note 6 and a number of other amendments have been made to the disclosure in that note.
In the draft Financial Statements Note 38 which contains the Pension Fund disclosures contained a number of errors. The contributions in respect of unfunded benefits, benefits paid and unfunded benefits paid lines did not agree to the actuaries report. This was a transposition error where the wrong narrative was aligned to the disclosed numbers. Together the numbers are correct, however the draft accounts show the figures next to the wrong narrative line. For example, contributions in respect of unfunded pensions: as per note 38 - (£46,996k) as per actuaries report - £3,534k. This is yet to be updated in the accounts.
Note 49 of the draft Financial Statements includes disclosures in respect of the Local Government Pension Scheme. Our testing revealed that the disclosures for 2019/20 did not agree to the Actuary's IAS 19 report, and the 2018/19 disclosures did not agree to the prior year financial statements. This is because the 2019/20 figures were included in the 2018/2019 column, and vice versa.

Audit adjustments

Disclosures

Disclosure misstatements

The following corrected disclosure misstatements have been identified up to the date of this report.

Disclosure misstatement identified
Note 49 of the draft Financial Statements includes disclosures in respect of the Local Government Pension Scheme. The disclosures included an 'average age' total of 16.5 years. This is clearly not correct and isn't a required disclosure so should be removed. This is yet to be amended but has been agreed to be corrected.
Note 49 of the draft Financial Statements includes disclosures in respect of the Local Government Pension Scheme. The disclosure of the percentage of fund assets in each asset category were incorrect in the draft accounts as they had not been updated from the prior year. Therefore the 2019/20 disclosures did not agree to the IAS19 Actuaries report. We noted that there were percentages disclosed for some asset classes with zero balances. This has since been corrected in version 4 of the accounts.
Note 7 of the draft Financial Statements discloses information in relation to the Dedicated Schools Grant (DSG). We identified several differences in the 2018/19 comparative figures within this note compared with the signed prior year Financial Statements - b/f from previous year and agreed use of 2020-21 grant in advance. These were brought to the attention of management who informed us that the note was incorrect and provided an amended note. This note was re-stated by management in version four of the draft Financial Statements.

Our other responsibilities explained

Fraud responsibilities and representations

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 that affects the entity.

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 completeness of accrued expenditure and management override of controls as significant audit risks.

During course of our audit, we have not identified any further risks relating to fraud.

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and and our objectivity is not compromised.
Fees	Details of proposed fees for audit services performed for the period have been presented separately in the appendix.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Council, its 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 for the period from 1st April 2019 to 31st March 2020 are as follows:

	Current year £'000
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	129
Total fees	129

We note that the fee above represents the scale fee for the audit of £129k. A revision to the fee (increasing this to £155k) was proposed by the Audit Partner to Management in March 2021 due to Covid-19 factors, the scale of the Wiltshire Council audit and additional costs linked to performance (reflecting the quality of working papers etc). Discussions on this revised fee are yet to take place, and further discussions will be required in relation to overruns for 2019/20. Any overruns or changes to the scale fee will also need to be agreed with PSAA.