WESTERN RIVERSIDE WASTE AUTHORITY

ADDITIONAL PAPERS FOR THE MEETING OF THE AUDIT COMMITTEE TO BE HELD ON WEDNESDAY, 31ST JULY, 2019 AT 2.30 P.M. IN ROOM 122 - THE TOWN HALL, WANDSWORTH HIGH STREET, WANDSWORTH SW18 2PU

1. Audited Accounts for 2018/19 (Paper No. WRWA 886) (Pages 9 - 66)

Appendix B - Deloitte's Draft ISA 260 report relating to the Accounts for 2018/19 (Attached)

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Deloitte.



Western Riverside Waste Authority

Report to the Members of the Authority on the audit for the year ended 31 March 2019

Issued 26 July 2019 for the meeting on 31 July 2019

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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 report to the Members of Western Riverside Waste Authority (the Authority) for the 2019 audit. The scope of our audit was set out within our planning report presented to the committee in April 2019. We have reassessed the significant risks identified compared to the audit plan presented in April 2019, as detailed on page 5

Status of the audit	The completion of the audit has been delayed due to: • prior year misstatements in the valuation of property, plant and equipment; and • issues in the accounting for the £3.5m received from Cory Limited during the year. One of the risk we identified in our planning paper was in relation to the accounting of the £3.5m payment from Cory and guarantees over Cory debt. We have been discussion the accounting rationale of this transaction with management. In working through the accounting for this transaction, this has raised broader questions in respect of the accounting (as opposed to the underlying commercials and cash flows) for the Authority's contract with Cory. In order to be able to conclude the audit, we have requested an accounting paper covering the underlying features of the WMSA and their accounting implications and any associated judgements therein, together with the impact of the 2017 and 2018 refinancing and changes to the WMSA. The need to conclude upon this matter in our first year as your auditors has delayed completion of the audit. Other outstanding matters as at the date of this report are: • completion of internal quality assurance procedures; • receipt of signed management representation letter; and • our review of events since 31 March 2019 through to signing. We have identified a number of control deficiencies which are reported on page 12.
Key areas of focus	• The key judgements in the audit process related to: • accounting for the £3.5m payment from Cory Limited,; • property valuations, and whether opening balances and comparative information should be restated to correct prior year misstatements; and • the classification of instruments classified within cash equivalents. • Adjusted audit misstatements have increased net assets by £6.5m and increased reserves by £6.5m. • Unadjusted audit misstatements would increase net expenditure in the CIES by £0.1m, reduce net assets by £0.1m, and reduce useable reserves by £0.1m. • The resolution of the outstanding matters noted above may require further adjustment of the financial statements.

Introduction

The key messages in this report (continued)

Value for Money	• We do not anticipate reporting any matters within our audit report in respect of the Authority's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
Narrative Report & Annual Governance Statement	• We have reviewed the Authority's Narrative Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • We have no matters to raise with you in respect of the Narrative Report or Annual Governance Statement.
Duties as public auditor	• We did not receive any queries or objections. • We have not identified any matters that would require us to issue a public interest report. • We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• The Authority is not a sampled component for WGA reporting. • We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.
Management representations	We will obtain written representations from those charged with governance on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.
Audit fee	As explained in our fee letter, our audit fee is based on assumptions about the scope of our work. We have incurred additional costs compared to those assumed in the scale fee in addressing a number of issues including: • Quality of initial draft financial statements, including review of multiple iterations; • Additional work in respect of property valuations due to prior year misstatements; • Accounting considerations in respect of the Authority's arrangements with Cory Limited. Additional costs incurred to date compared to the scale fee are £11k, at the agreed PSAA rate card set out in the appendix. We will update in respect of the total cost following resolution of the outstanding matters in the audit.

Ben Sheriff
Audit Lead

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Our audit explained

We tailor our audit to your organisation

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.

- Potential redevelopment of Cringle Dock Transfer Station
- £3.5m received as part of the re-financing agreement with Cory

Scoping

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

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out on pages 15 of this report.



Determine materiality

When planning our audit we set our materiality at £950k based on approximately 2% of gross expenditure of the prior years audited financial statements. We updated our materiality assessment based on year-end figures to £1.0m (2% of gross expenditure). We report to you in this paper all misstatements above £50k.

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 and conclusions on these risks in this report. Based on issues arising in our work we have reassessed as significant risks: property valuations as a significant risk (specifically in respect of the brought forward valuation); and accounting for the £3.5m payment from Cory and the underlying contractual arrangements.

Conclude on significant risk areas

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

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report and unmodified value for money conclusion.

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Significant risks

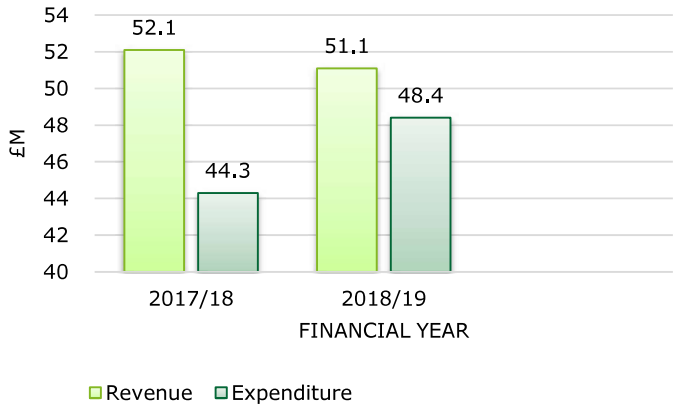
Revenue and expenditure recognition

Risk identified

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

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

In 2018/19, the Authority approved a gross expenditure budget of £51m. Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals.



Deloitte response

In considering the risk identified, we performed the following audit procedures that directly address this risk:

- We obtained an understanding of and test the design and implementation of the key controls in place in relation to recording completeness of expenditure and accruals;
- We reviewed the contract in place between the Authority and Cory Limited;
- We performed focused testing in relation to the completeness of expenditure including a detailed review of expenditure and accruals;
- We reviewed the accuracy of the expenditure calculated by Cory.
- As part of this focused testing, we challenged the assumptions made in relation to year-end accruals; and
- In addition, we reviewed the year on year movement in expenditure and accruals and investigated any significant movements

Deloitte view

Our conclusion on this area is dependent upon the outstanding matters around overall accounting for the Cory contract, to determine no impact upon accounting recognition of expenses.

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Significant risks

Valuation of property assets

Risk identified

We have reassessed valuation of property assets as a significant risk, based on issues identified in respect of the opening valuation. We have pinpointed the risk to the arithmetic accuracy of the valuation and the valuation of land.

Key judgements and our challenge of them

A full revaluation was performed on land, buildings and fixed plant and equipment as at 31 March 2018. The Authority's valuer had advised there had been no material movement for the year to 31 March 2019.

Upon review of the 31 March 2018 valuation to assess the reasonableness of this, we identified a) an arithmetic error of £5.1m, and b) that land was held at what appeared a very low valuation. Upon enquiry of the Authority's valuers, it was confirmed that a) the valuation at 31 March 2018 was overstated by £5.1m due to arithmetic error, and b) that upon further consideration the land value should be increased by £11.5m reflecting an increase in price per hectare from £825k to £4m.

We have also challenged the 31 March 2017 valuation figures for similar errors and concluded that the 2013 valuation was conducted by a different firm of valuer and the valuation does not appear to have had similar issues. The land figures were based on assumptions that are consistent with the updated March 2018 valuation.

Deloitte response

- We have used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Authority's properties, and of the judgement that there was no material movement during the year.
- We have checked whether any adjustments to the value of previously capitalised works are required and how these have been calculated.
- We have challenged challenge management's assessment as to whether any impairment arises in respect of newly capitalised expenditure.
- We considered the impact of uncertainties relating to the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

Deloitte view

We have identified a control deficiency as outlined on page 13 and an immaterial error of £0.1m (page 17) which has not been corrected.
We have identified a material prior year error in the valuation of £6.5m on cost. We found material arithmetic errors and challenged the valuer on their judgements.

As a result, the statement of accounts have been restated to reflect a reasonable estimate of the fair value at year end.

Following restatement, we have concluded that the net book value of property assets is not materially misstated. The Authority's revised valuation assumptions have been reasonable, in line with other Authorities and fall within the expected range highlighted by Deloitte Real Estate.

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Significant risks

Management override of controls

Risk identified

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

Judgment and Estimates:

The key judgments in the financial statements are those which we have selected as areas of audit focus, pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Significant Transaction:

We noted that the Authority had entered into a refinancing agreement with Cory Limited during the year and had received a £3.5m payment as part of the contract. This has been separately identified as a significant risk.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Authority's results throughout the year was closely monitored; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

Our work on the £3.5m payment from Cory will be reported separately.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

We have identified a control deficiency relating to financial statement preparation on page 12.

Other areas of audit focus

Defined benefits pension scheme

	Pension Assets	Pension liabilities	Net pension deficit
2019	**£8.1m**	**£11.4m**	**£3.3m**
Actual			
2018	**£7.7m**	**£11.3m**	**£3.7m**
Actual			

Background

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

The net pension liability has increased from £11.3m at 31 March 2018 to £11.4m at 31 March 2019 primarily as a result of slight increase in the discount rates and movements in asset values.

The Authority's pension liability is not materially affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. Management consider the likely impact (with only 7 active members) as clearly trivial, and we concur with this judgement.

Deloitte response

- We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking as shown the table opposite.
- We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the reasonableness of the Authority's share of the total assets of the scheme with the Pension Fund financial statements for the year as at 31 March 2018 and performed analytic procedures to test the asset value and movements for the year.
- We have evaluated the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

	Authority	Benchmark	Comments
Discount rate (% p.a.)	2.35	2.36	Reasonable, slightly prudent
Retail Price Index (RPI) Inflation rate (% p.a.)	3.45	3.25	Prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.45	2.25	Prudent
Salary increase (% p.a.) (over RPI inflation)	0.5	Council specific	Prudent
Pension increase in payment (% p.a.)	2.45	2.28	Reasonable, slightly prudent
Pension increase in deferment (% p.a.)	2.45	2.25	Reasonable, slightly prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	19.80	21.20	Prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	21.60	23.00	Prudent

Deloitte view

The Authority has not adjusted the pension liability for the impact of the McCloud case, and has instead disclosed as a contingent liability. We consider the likely impact to be below our reporting threshold of £50k and so have not raised an adjustment in respect of this.

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

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Value for Money

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Deloitte risk assessment

- We obtained an understanding of the Authority's budget for 2019/20.
- We considered the appropriateness of the governance arrangements and due diligence performed.
- We discussed the Authority's arrangements with senior operational staff – Chris Buss, Treasurer and inspected the internal audit reports.
- We have considered the arrangements around the re-financing with Cory.
- We reviewed the Authority's draft Narrative Report, Annual Governance Statement and relevant Authority papers and minutes.
- We considered the Authority's financial results for the year and the assumptions in the budget for future years.
- We considered matters identified by the National Audit Office as potential value for money risks for Councils for 2018/19.

Deloitte view

- Based upon the work performed in our risk assessment, we did not identify any significant audit risks, which is consistent with our Planning Report.

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Other matters

Implementation of IFRS 9 and IFRS 15

Matter identified	The Authority is required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, the Council is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. The scope of IFRS 9 and IFRS 15 is limited to balances arising on "exchange" transactions. Non-exchange debtors, such as levies and operating income are outside of the scope of IFRS 9 and IFRS 15. The Authority has posted no retrospective adjustments with regard to IFRS 9 or IFRS 15 on the basis that there is no material impact on the financial statements. This conclusion is subject to the conclusion on the Cory transactions.
Response	Management held discussions regarding the accounting impact of the new standards on the Board for the period and determined that the impact is immaterial. The key element impacted by IFRS 9 is the accounting for the bad debt provision for debtors, which must move to a methodology of expected credit losses. However, the Authority has assessed it does not have any exchange debtors requiring provision, and so there is no impact from this. Regarding IFRS 15, management was satisfied that no transitional adjustments would be required due to the Authority's sources of material income being outside of the scope of the standard. Key income streams within the scope of the standard include income received from Cory. IFRS 9 also introduces new or changed disclosure requirements. The Authority's initial draft financial statements were not updated for these changes and as a result did not comply with the Code in this respect. We have requested adjustments to the financial statements to meet these disclosure requirements. Regarding IFRS 15, officers were satisfied that no transitional adjustments would be required as the Authority's sources of income including levies, rents and income from constituent councils are outside of the scope of the standard and in other income streams which fall within the scope of IFRS 15 there are not material performance obligations which span the year end. This is consistent with a general expectation for local authorities. We requested updates to the disclosures in the financial statements to reflect the disclosure requirements of IFRS 15.

Deloitte view

Subject to the conclusion on the accounting for Cory transactions, we concur with management's conclusion that the new accounting standards do not have a material impact for the Authority. We have requested disclosure changes to meet the disclosure requirements of the Code.

Other significant findings

Internal control and risk management

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

Area	Observation	Priority
Quality of draft financial statements	The initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard. Issues noted included: • Significant arithmetic errors including the balance sheet not casting; • Inconsistencies between notes and primary statements; • Inconsistencies in movements between notes in the financial statements; • Accounting policies not updated for the adoption of IFRS 9 and IFRS 15; • Accounts disclosures not updated for the adoption of IFRS 9; • Accounts disclosures not updated for the adoption of IFRS 15; • Accounts disclosures not updated for 2018/19 changes in the Code including in respect of the reconciliation of financial liabilities; and • Other omitted disclosures including in respect of elements of the cashflow, fair value hierarchies, leases and senior officers remuneration disclosures. Together these indicate deficiencies in the financial reporting and close process. We recommend the Authority to review the year-end reporting and close process, including: • preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Authority; • documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts; • documented and reviewed use of CIPFA disclosure checklists; • documented and reviewed internal checks of arithmetic accuracy and internal consistency; • completion of the CIPFA "pre-audit checks on draft year-end accounts" checklist; and • documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers. While we recognise the constraints imposed by the small size of the Authority and its finance team, the Authority is subject to the same accounting and disclosure requirements as other local authorities	
Preparation of accounting papers	Management accounting papers were not available for key judgements. It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. In addition to papers for issues arising in year, given the complexity of the Authority's arrangements, we would expect there to be standard consideration of the accounting impact of the agreement with Cory, setting out the fact pattern of the contract and these should then be updated as contract standards changes. The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge in the organisation. We recommend the Authority adopt an approach of preparing papers for any key accounting judgements or issues arising.	

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

Low Priority

Medium Priority

High Priority

Other significant findings

Internal control and risk management

Area	Observation	Priority
Review of property valuations	The 31 March 2018 valuation received from the valuer included an arithmetic error of £5.1m. We would expect organisations to review valuations received, and for this error to have been identified by the valuer and/or by management. We recommend management revisit the process for review and challenge of valuations for future years.	
No formal agreement with Wandsworth Borough Council on the cash held by the Council	The Council holds £15m with Wandsworth Borough Council. Wandsworth invests these funds (in the current year primarily into Money Market Funds) and pays the Authority interest based on the return earned. This has been classified as cash in the financial statements. We have identified that there are no formal agreement between the Authority and Wandsworth Borough Council for the cash held by the Council on behalf of the Authority. It is thus not clear if the Council holds the risk movements on where the cash is invested. Based upon discussion with both the Authority and Wandsworth, it is reasonable to treat this as a "demand deposit" with Wandsworth, and so as cash, but this is a judgement and we have requested a representation in respect of this. We would recommend that a formal agreement is set up between the Authority and Council specifically detailing the conditions of the arrangement. If this were considered an investment in Money Market Funds, then the Authority would need to consider whether this met the definition of a "cash equivalent" under the IAS 7, including whether the particular assets are 'readily convertible to known amounts of cash' and 'subject to insignificant risk of changes in value'. This would require specific assessment each year of factors such as the investment rules of the fund, controls over management of the fund's net asset value and mechanisms for redemption in stressed market conditions. If investing in Money Market Funds directly (or in a manner with Wandsworth where agreed exposed to risks of movement in value) we recommend the Authority perform this assessment on investing ahead of each year-end.	
New accounting standards – IFRS 9 and 15	The Authority did not prepare accounting papers on the transition to IFRS 9 and 15 in advance of year-end/preparation of the draft account. The initial draft IFRS 9 and 15 papers, prepared after publication of the draft financial statements, omitted a number of matters, and did not address disclosure requirements. The initial draft accounts were not updated for changes in disclosure requirements from IFRS 9 and 15. Although our work on IFRS 9 and 15 did not identify any material changes to the financial statements, we highlight that this has been done as a year-end exercise to assess the impact of GAAP differences, without embedding into the Authority's underlying systems, processes and controls. This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected. We recommend the Authority review how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 and 15, and the process to be followed in assessing new and unusual transactions.	
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Authorities than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. We recommend the Authority targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Authority's underlying accounting systems.	

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Your annual report

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

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Authority): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Our review identified a number of areas where the Narrative Reports needed revising in order to comply with guidance and to ensure that they were fair, balanced and understandable, which have been reflected in the final version. We note that Brexit is not expected to have a significant impact on the Authority.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

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Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

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

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

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



Ben Sheriff

for and on behalf of Deloitte LLP

St Albans

26 July 2019

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Appendices



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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). Uncorrected misstatements decrease the surplus on the CIES by £0.1 million, decrease net assets by £0.1 million.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	If applicable, control deficiency identified
Misstatements identified in current year					
Depreciation of Property, Plant and Equipment on correction of revaluation increase	[1]	0.1	(0.1)		Yes
Total		**0.1**	**(0.1)**		

(1) Depreciation adjustment following the restatement of property, plant and equipment revaluation increase.

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Audit adjustments

Corrected 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). Uncorrected misstatements increase net assets by £6.5 million, and increase reserves by £6.5 million.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	If applicable, control deficiency identified
Prior year error on Property, Plant and Equipment Revaluation	[1]		6.5	(6.5)	Yes
Reclassification of Diversified Income Fund	[2]		(1.0) 1.0	-	Yes
Total			**6.5**	**6.5**	

(1) Correction of prior period error identified regarding Property, plant and equipment valuation as 31 March 2018

(2) Reclassification of the Diversified Income Fund from cash and cash equivalents to short-term investments.

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Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

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

Required representations:

We have asked the Authority 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 are not aware of any fraud or suspected fraud that affects the Authority.

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 revenue and expenditure recognition and management override of controls as key audit risks for your organisation.

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

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

We have reviewed the paper prepared by management for the Members of the authority on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been raised in relation to fraud or whistleblowing during our procedures

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Independence and fees

	Planned fee £'000s (excl. VAT)
Code audit fee	12,058
Total fees	**12,058**

We have incurred additional costs in our work on the 2018/19 audit due to difficulties, errors identified in the draft accounts and accounting issues identified including the prior year restatement. We therefore expect to charge an additional fee. This is subject to finalisation of the costs incurred following completion of the audit and approval by Public Sector Audit Appointments Limited. Additional time is charged using the following rate card. Our current estimate of additional costs is c£11,000.

	Rate per hour (£)
Partner/director	132
Senior manager/manager	73
Senior auditor	47
Other staff	36

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