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Harrow COUNCIL LONDON

London Borough of Harrow

# Planning Report to the Governance, Audit and Risk Management Committee for the year ending 31 March 2014

the Distinctive audit

14 March 2014

# Contents



*I am delighted to present this planning report for the 2013/14 audit of the London Borough of Harrow.  The report sets out our audit approach and the more significant areas where we will focus our attention this year.*

*(Paul Schofield, Audit Partner)*

# The big picture

# The Big Picture

### Key developments in your business

- During the year there was a change in leadership at the council after which Susan Hall was appointed leader of the Council.
- The post of the Chief Executive was deleted in the current year. The statutory duties of this post is now being fulfilled by the interim Head of Paid Services.
- The 2013-14 Quarter 3 revenue financial monitoring indicates a forecast overspend of £1.9m. This represents an adverse variance of 1.1% against the approved revenue budget of £181m.

### Key measures from the FY14 Budget (original)

**Budget requirement - £181m**

**Amount to be met by government grants and taxpayers - £145m**

**General Fund and Earmarked revenue reserves at 1 April 2013 - £26m**

**Estimated materiality**

**Overall - £7.0m**

**Housing Revenue Account - £2.5m**

### Key developments in financial reporting requirements

- Changes to Code requirements in respect of the classification, recognition, measurement and disclosure of post-employment benefits
- New guidance on the accounting entries required from the localisation of business rates
- Clarification regarding the frequency of revaluations for properties which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.
- Other smaller changes to presentation and disclosure matters in the financial statements.

### Key developments in our audit response

- No changes to the overall scope of the audit
- Recognition of grant income identified as an audit risk taking account of the risk of fraud in revenue recognition presumed in auditing standards and in view of the judgements involved in recognition of grant income
- Risk of management override of controls, as presumed by auditing standards.
- Valuation of properties continues to be an area of audit forcus in view of the judgement involved in estimating the value of the portfolio
- Valuation of pension liabilities continues to be an area of audit focus due to the complex nature of the calculation and the size of the pension liability.

# Our audit quality promise

# Our audit quality promise

## Our new quality standard

To ensure that best practice behaviours are embedded within our audit we will establish our Audit Quality Promise, a written document created through discussion with you, which focuses on our audit quality commitments to all stakeholders. It will include:

The quality of our audit delivery is of great importance to us. In order to ensure we deliver an excellent service to you, we have developed our audit quality promise. Key aspects of this delivery are:

- how we communicate with you throughout the year;
- what insight we bring around the quality of your control environment, systems and audit risk areas; and
- how we ensure that our team is delivering the best quality audit at every level.

This section sets out our commitments to management, officers and members in these areas and we will actively seek feedback on how we have performed against them.

**Our vision for the audit:**

- A vision of how the audit will evolve in line with your business
- Covers scope, extended assurance, data analytics roadmap, insight plan and team

**Feedback on prior year audit and actions agreed to achieve continuous improvement**

- This will be based upon an annual debrief with the finance team.

**Communication strategy for all key stakeholders**

- Includes details of meeting frequency, meeting attendees and content

**Commitments from both sides as to how we will work together at all levels:**

- Members
- Senior management
- Finance team

**Summary of agreed detailed insight plan**

- Areas include sector and industry issues, systems and processes, technical and regulatory updates, analytics and KPIs, audit risk areas and governance & controls

**Appendix**

- Forward looking calendar of relevant Deloitte events and publications

# Changes in you Statement of Accounts

# Changes in your Statement of Accounts

## New reporting requirements

We set out for the Governance Audit and Risk Management ('GARM') Committee a summary of the latest developments in financial reporting which will impact this year end.

| Changes in Code of Practice on Local Authority Accounting requirements | Impact on the Council |
|---|---|
| Post-employment benefits – changes have been made to Code requirements in respect of the classification, recognition, measurement and disclosure requirements introduced as a result of amendments to the relevant accounting standard. | This is relevant to the Council and will require a number of changes to the calculation and presentation of entries. There is no impact on the Council balance as a result of the changes. |
| Accounting for business rates retention – the Code provides guidance on the accounting requirements arising from the localisation of business rates in England from 1 April 2013. | This is relevant to the Council and is discussed further in the next section. |
| Dedicated Schools Grant (DSG) – the most current disclosures for DSG are provided in accordance with statutory reporting requirements. | Minor changes will be needed to the format of the note to bring into line with the latest guidance but this is not expected to have a significant impact on the Statement of Accounts or the preparation thereof. |
| Presentation of Financial Statements – The Code makes amendments to the format of the Comprehensive Income and Expenditure Statement resulting from amendments to the related accounting standard. This is in respect of items that are potentially reclassifiable to Surplus or Deficit on the Provision of Services at a future time. Where authorities have transactions that include amounts that are reclassifiable in the Surplus or Deficit on the Provision of Services, the items listed in Other Comprehensive Income and Expenditure must be grouped into those items that:<br>a) will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and<br>b) will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met. | Where local authorities do not have such transactions, no change is needed to the format of the Comprehensive Income and Expenditure Statement. However CIPFA recommends in such circumstances that authorities clarify in their summary of significant accounting policies that, where this is the case, they do not have such transactions and have therefore not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be reclassifiable and amounts that are not. |
| Revaluation of properties - Clarification regarding the frequency of revaluations for Property, Plant and Equipment which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date. | This is relevant to the Council. We consider this in more detail in the next section. |
| The Carbon Reduction Commitment (CRC) Energy Efficiency scheme – The Code has been updated for changes in the scheme applicable to 2013/14. In particular, as 2013/14 is the end of the introductory phase, there is no option to carry forward allowances for use in respect of emissions in 2014/15 with any remaining unused allowances at the end of the introductory phase become invalid. Guidance on any allowances purchased prospectively for 2014/15 is pending. | This is applicable to the Council, but not expected to have a material impact. |
| Service Concession Arrangements (PFI and PPP Arrangements) – updates to ensure that its provisions adequately reflect the grantor arrangements, particularly in relation to assets under construction and intangible assets. | This is applicable to the Council, but impact is expected to be limited to disclosure in the financial statements. |

CIPFA provide a disclosure checklist that we recommend management complete in detail to ensure adherence to these areas.

# Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

# Scope of work and approach

## Areas of responsibility under the Audit Commission's Code of Audit Practice

### Responsibilities related to the financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (ISA (UK and Ireland)) as adopted by the UK Auditing Practices Board (APB) and the Audit Commission's Code of Audit Practice. The Council will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility. We are also required to report on the regularity of income and expenditure.

#### The Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work. We will also review reports from relevant regulatory bodies and any related action plans developed by the Council.

#### Whole of Government Accounts

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Council's whole of government accounts return. Our report is issued to the National Audit Office (NAO) for the purposes of their audit of the Whole of Government Accounts.

### Responsibilities related to Harrow Council's use of resources

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

Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience; and
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

We then provide a conclusion on these arrangements (our "Value for Money Conclusion") as part of our audit report.

# Scope of work and approach
## Approach to controls testing

As set out in "Briefing on audit matters" circulated to you in March 2013, a copy of which can be made available, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

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

### Liaison with internal audit

The audit team, consistent with previous years, will leverage off of the work performed by internal audit wherever possible to allow efficiencies and limit a duplication of work. We will first update our assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. We will refer to the internal audit's self assessment and peer review assessment in carrying out this work. Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work. Our approach takes into account the new restrictions issued by the Financial Reporting Council in June 2013. These create a clear division of responsibility between internal and external audit to safeguard against conflicts of interest.

## Materiality and error reporting threshold

For the 2013/14 financial statements, we have estimated materiality based on net cost of services for the year and estimated reserves position.

We have set a lower materiality for the Housing Revenue Account based on that Account's reserves position

We will report to the Audit and Risk Management Committee on all unadjusted misstatements greater than the reporting threshold shown below and other adjustments that are qualitatively material.

**Estimated materiality and error reporting thresholds**

**Overall**

**Materiality - £7.0m**
**Error reporting threshold - £350k**

**Housing Revenue Account**

**Materiality - £2.5m**
**Error reporting threshold - £125k**


# Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

# 1. Grant income recognition

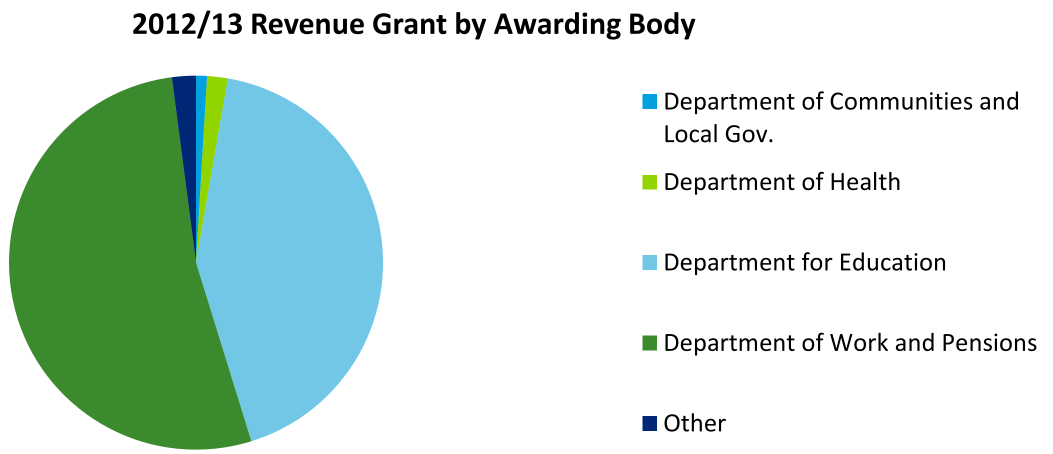
## Evaluating whether recognition is consistent with grant terms and conditions can involve significant judgement.

### Nature of risk

We have identified a key audit risk related to revenue recognition from grants from fraud or error. This is due to the fact that where grants have conditions attached revenue should only be recognised when such conditions have been met. There is also a presumed risk of fraud in revenue recognition identified in the International Standards on Auditing.

Determining if there are conditions attached to a grant and if these conditions have been met can involve significant management judgement. In the prior year revenue grants included within cost of services amounted to £303m.

We have included a graphical representation of the revenue grants per awarding body in the 2012/13 financial year:




### The key judgement areas and our planned audit challenge

We will examine guidance given to staff on the accounting for grants and associated operating instructions and other arrangements. We will determine whether our work can be further focused on the basis of this.

We will also carry out extended testing to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled.

# 2. Management override of key controls

## We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

**Nature of risk**

International Standards on Auditing requires auditors to identify a presumed risk of fraud in management override of key controls. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

**The key judgement areas and our planned audit challenge**

Our work will focus on:

- the testing of journals, using our proprietary software "Spotlight" to analyse the journal data as a basis for focusing our testing on higher risk journals;
- As a result of our ongoing dialogue with management, we will also focus our attention on provisioning in relation to restructuring to ensure that the conditions to provide are met; and consider any one off transactions impacting reserves in light of the low reserves position;
- any significant accounting estimates in addition to the estimates discussed above in respect of provisioning for provider claims; and
- any unusual transactions, including those with related parties.

**Spotlight will help us to deliver audits in faster, better way.**

| | | |
|---|---|---|
| Spotlight is Deloitte's centralised analytics platform that provides access to pre-built analytics on a growing range of risks and account balances. It allows us to build and configure analytics in a risk-focused and user-friendly way. | Spotlight can be used for financial and analytical review (identifying trends), fraudulent financial reporting through identification of high risk journals, Fixed assets (assessment of additions and recalculating depreciation) accounts payable (assessment of year end payables balance). | We will use Spotlight to give us insight into your annual financials. We will also use Spotlight to identify high risk journals for our testing the specific identified risk of Management override of controls. |

# Other accounting judgements and issues

## We note other accounting judgments and issues which have not currently been identified as significant audit risks

**Valuation of properties**

- The Code has been updated to provide clarification on the frequency of revaluation of property, plant and equipment.
- The Code requires that items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, the Code allows valuations to be carried out on a rolling basis, but only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date (eg by the use of indices).
- No further guidance is provided as to how a 'short period' should be interpreted for these purposes although, given the drafting of the Standard, it is presumably less than a financial year. The general approach of IFRS, however, is to require simultaneous valuations so as to avoid the reporting of amounts that are a mixture of costs and values as at different dates. Accordingly, it is commonly interpreted amongst corporate reporters as requiring: for all such valuations to take place in the same accounting period; and for the acceptable length of the period to take into account how stable fair values are, so that greater volatility requires a shorter period over which to perform valuations.
- The area of concern for the Council relates to the “Other land and buildings” class where revaluations have in the past been carried out on a rolling basis. Assets in other classes have either in the past been revalued on an annual basis or are carried at historical cost. The value of “Other land and buildings” at 31 March 2013 was £333m.

**Valuation of pension liability**

- The valuation of the pension liability continues to be an audit risk in view of the complexity of the judgements and sensitivity of the valuation to small changes in individual assumptions. This is not considered to be a significant risk as this does not impact the general fund, which is a key focus of users of the financial statements. However, given that this is an area of judgement and estimation, we propose to provide enhanced commentary on our review of the assumptions in our final reporting to assist the committee in their scrutiny of this aspect of the financial statements.
- The net liability relating to the pension scheme is substantial, amounting to £323.131k at 31 March 2013, so its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and other economic indices and these have become more volatile during the current economic environment.
- We will consider the qualifications, expertise and independence of the actuary engaged by The Council and the instructions and sources of information provided to the actuary.
- We will include a specialist from our team of actuaries in our engagement team to assist in the review and challenge of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries.

# Other accounting judgements and issues (continued)

## We note other accounting judgments and issues which have not currently been identified as significant audit risks

**Localisation of business rates**

- The Government introduced a business rates retention scheme from 1 April 2013. The intention behind the scheme is to provide a direct link between business rates growth and the amount of money councils have to spend on local people and local services.
- The scheme involves a system of tariffs and top-up payments to and from government to even out situations where business rates are not in proportion to current spending. The government has indicated that the levels of tariff and top-up payments will increase proportionately in line with the Retail Price Index. Relativities will not be reviewed until the system is reset. The government has said that this will not occur before 2020 at the earliest. This will provide councils with the certainty they need to plan and budget. In addition, safety net payments will be available if a council's business rates income falls by a certain amount. This will provide support if, for example, a major local employer closes. This safety net will be funded by a levy paid by those councils whose business rates revenue increases by a disproportionate amount compared to their needs. The levy is designed to ensure that the more councils grow their business rates, the more they benefit
- The introduction of the scheme will require the Council to make new or changed accounting entries. We have not identified this as a significant audit risk, however, as CIPFA have issued detailed guidance on the accounting implications for the localisation of business rates, including example entries, to assist with implementation.
- The accounting and estimation processes for appeals against rateable values require the exercise of judgement. The impact of this needs to be assessed by the Council. We will discuss with management the process followed in calculating this estimate and we will audit the related disclosures as part of our audit of the financial statements.

# Value for money conclusion

# Value for money conclusion

## Our work will focus on the establishment of key governance arrangements during the first year of operation

### Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the London Borough of Harrow has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources in respect of the Council - this conclusion is known as “the VFM conclusion”.

| Specified criteria for auditors’ VFM conclusion | Focus of the criteria for 2014 |
|---|---|
| **The organisation has proper arrangements in place for securing financial resilience.** | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. |
| **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** | The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. |

### Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

### Risk assessment

Our preliminary assessment is that there were no risks in relation to our VFM responsibilities which require local work to be carried out and we have therefore not identified any risks or additional local studies in our audit plan.

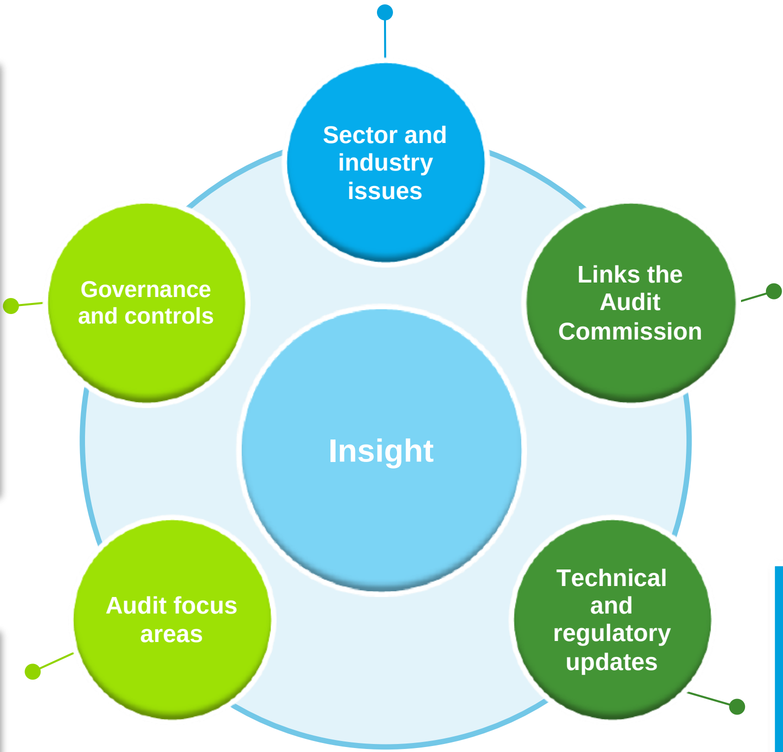
We will carry out our detailed risk assessment from April to take account of the latest refresh of the Medium Term Financial Strategy, as well as the outturn financial and performance information for 2013/14. We will also consider past results of our VFM assessment and key changes that took place in the current financial year, such as those discussed in the executive summary of this report. The risk assessment involves consideration of common risk factors for local authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the Council. We will undertake this work through review of relevant documentation, including committee papers and discussion with officers. We will also consider whether there are other risks which might be specific to the Council. We will do this principally through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

# Our insight plan

# Our insight plan

## We have summarised below some of the ways we will provide the Council with insight during 2014

- Sharing knowledge of sector developments.
- We have attached at Appendix 6 a summary of our research into the state of local public services




- Feedback comments from our VFM conclusion work
- Annual training session with the audit committee
- Communicate control findings in reporting to GARMC

- Share with officers emerging issues

- Risk based journal analysis covering period end postings utlising our proprietary "Spotlight" software

- Early discussion of Code changes, their expected impact on the Council and proposed response
- Early review of draft financial statements or draft financial statements

# Responsibility statement

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit
- Key regulatory and corporate governance updates, relevant to you on request.

### What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to Governance, Audit and Risk Management Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you in March 2013, a copy of which can be made available.
- Our Audit Quality Promise and Insight Plan will provide the details of additional procedures we will agree with you we will perform alongside the audit of the financial statements.
- We will update you if there are any significant changes to the audit plan.

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

**Deloitte LLP**
Chartered Accountants

Cambridge
14 March 2014

This report has been prepared for the Governance, Audit and Risk Management 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.

# Appendices

# Appendix 1: Prior year misstatements

## We remind you of prior year misstatements

### Uncorrected audit adjustments

The following misstatements were identified in the prior year that were not corrected in the financial statements:

| Description | Assets<br><br>DR / (CR)<br>£ | Liabilities<br><br>DR / CR)<br>£ | Equity<br><br>DR / (CR)<br>£ | Income Statement<br><br>DR / (CR)<br>£ |
|---|---|---|---|---|
| HRA Revaluation difference due to change in HPI between preparation of account and audit date | 728,528 | | (728,528) | |

### Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

We have not identified any disclosure deficiencies during our audit of the 2012/13 financial statements of the Council.

# Appendix 2: Independence and fees

## We confirm we are independent of the London Borough of Harrow

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

| | |
|---|---|
| **Independence confirmation** | We confirm we are independent of the London Borough of Harrow and will reconfirm our independence and objectivity to the Governance, Audit and Risk Management Committee for the year ending 31 March 2014 in our final report to the Audit and Risk Management Committee. |
| **Fees** | Details of the non-audit services fees proposed for the period have been presented separately below. |
| **Non-audit services** | In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |

# Appendix 2: Independence and fees (continued)

## We summarise earned or proposed audit and non audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

| | Current year £000 | Prior year £000 |
|---|---|---|
| Fees payable in respect of our work under the Code of Audit Practice | 193 | 193 |
| Fees payable in respect of our work under the Code of Audit Practice – extensions to audit work | 8 | 8 |
| Fees payable in respect of our work under the Code of Audit Practice - in respect of the WGA return | 5 | 5 |
| Fees payable in respect of the certification of grants | 43 | 43 |
| Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund | 21 | 21 |
| Other **(*)** | TBC | 16 |

(*) These fees relate to fees in relation to time spent on objections.

# Appendix 3: Fraud: responsibilities and representations

## We summarise our respective responsibilities regarding fraud

**Characteristics**

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

**Responsibilities**

**Your responsibilities**

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

**Our responsibilities**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

# Appendix 3: Fraud: responsibilities and representations (continued)

## We will make inquiries and obtain representations regarding fraud

We will make the following inquiries regarding fraud:

| Management | Internal Audit | Those charged with governance |
|---|---|---|
| Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments<br>Management's process for identifying and responding to the risks of fraud in the entity<br>Management's communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity<br>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour<br>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity | Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud | How those charged with governance exercise oversight of managements processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks<br>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity |

We will request the following to be stated in the representation letter signed on behalf of the Council:

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

(i) management;

(ii) employees who have significant roles in internal control; or

(iii) others where the fraud could have a material effect on the financial statements.

- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 4: Your audit team

## We set out key members of your audit team

**Paul Schofield**
Engagement Partner

Tel: 01223 259 454
Email: pschofield@deloitte.co.uk

**Anna Parker**
Engagement Senior Manager

Tel: 02380 54337
Email: annparker@deloitte.co.uk

**Neil Yeomans**
Computer Audit Partner

**Sybil Muller**
Manager

**Hannah Serpis**
Property Valuation Specialist

**Audit Field Team**

**Richard Bradshaw**
Pension actuarial specialist

# Appendix 5: Timetable

## We summarise the timing of the key phases of the audit

Set out below is the approximate expected timing of our reporting and communication with you.

| Planning | Interim audit | Year end work | Reporting | Post reporting |
|---|---|---|---|---|
| Planning meetings to<br>• confirm our risk assessment and management response; and<br>• agree on key judgemental accounting issues<br><br>Agree audit plan | Update discussions of key audit and business risks and testing of controls to mitigate significant audit risks<br><br>Review of relevant internal audit work<br><br>Update understanding of systems, controls and developments in the business<br><br>Performance of work in support of value for money conclusion | Performance of substantive testing<br><br>Finalisation of work in support of value for money conclusion<br><br>Review of annual accounts<br><br>Audit issues meeting<br><br>Work to support assurance statement on WGA return. | Final Audit and Risk Management Committee meeting<br><br>Issuance of<br>• audit report and opinion<br>• value for money conclusion<br>• limited assurance opinion on the WGA return | Audit feedback meeting<br><br>Presentation of letter of recommendation on control improvements (if applicable)<br><br>Issue of annual audit letter and presentation to the Audit and Risk Management Committee |
| Feb 2014 | Mar 2014 | June–July 2014 | Aug-Oct 2014 | Sep-Oct 2014 |

**Ongoing communication and feedback**

Our interim work will be carried out over two weeks, commencing 17 March 2014.

Our final audit visit will commence on 7 July 2014 and run through to completion of the fieldwork expected at the end of August 2014.

The work to support our limited assurance report on the WGA return will take place in September 2014 and we expect to issue our assurance report at the start of October 2014.

We expect to issue our annual audit letter in October 2014.

# Appendix 6: State of local public services

## We summarise the outcome of our research which provides further context for our audit

Insight

**During the spring and summer of 2013, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change.**

**We have summarised the key messages in relation to local public services below.**

### Overall

Overall chief executives told us that they feel their organisations are coping well and responding effectively to the challenging circumstances.

They also said that while the depth and speed of change has been difficult for staff, morale is holding up, although future cuts create understandable concerns.

### Link between local economies and local services has moved up the agenda

Combined with cuts, the recession has put the health of local economies high on the agenda. Weak economic growth and unemployment has increased pressure on the local public sector as demand for spending has increased. This concern was a clear theme, particularly at a time when cuts are reducing capacity to provide. One police respondent reported that while crime was down overall, shoplifting for food has increased.

### Local public service executives fear the impact of welfare reforms

Our research suggests that public service leaders are particularly concerned about the fallout from welfare reform. Some wondered if central government has assessed whether savings on welfare spending will be counterbalanced by increased demand on local services. This was particularly a concern for directors in childrens services where interviewees described rises in child protection cases. Many expressed concerns that cuts will affect their ability to invest in preventative services.

### The people in our local public services are focused on opportunities – not just challenges

Our research showed that local public service executives see the current climate as an opportunity to refocus their services on residents' needs and outcomes, as well as to use creativity rather than resources to solve problems. One police respondent told us that in the past, additional finance would have been used to deliver change – but now, the force explores service redesign. On balance, interviewees felt that the opportunities of the coming five years outweigh the challenges

### The game has changed – so have leadership priorities

When interview responses were collated, a striking trend emerged: organisational leaders are focused on their people and how they can be empowered to rise to their organisation's challenges. Public value is a notably important issue; a number of executives mentioned values – such as caring, fair and trusted – as being central to the public service ethos. At a time of public sector headcount reductions, interviewees spoke of the importance of attracting staff with the right skills.

### A new public services landscape has brought a new set of risks

A number of interviewees told us about the advantages of public sector partnerships in delivering joined-up services, transferring knowledge and generating savings. Most thought that partnerships with the private and third sectors were also beneficial. They thought that cross-sector working brought specific benefits, including exposure to new ideas and new delivery models, efficiency and quality from private sector and local knowledge and niche services from the third sector. But many also recognised that commissioning and partnerships outside the public sector brought new, critical risks that needed to be managed.