

The Annual Audit Letter for Wealden District Council

Year ended 31 March 2020

11 January 2020



Contents



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Section	Page
1. Executive Summary	3-4
2. Audit of the Financial Statements	5-10
3. Value for Money conclusion	11-12

Appendices

A	Reports issued and fees
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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Wealden District Council (the Council) and its subsidiary (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council, group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Finance and Governance Committee as those charged with governance in our Audit Findings Report on 10 November 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council and group's financial statements to be £1,398,000, which is 1.99% of the Council and group's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council and group's financial statements on 29 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 29 November 2020.
Certificate	We were unable to certify that we had completed the audit of the financial statements of the Council at the date of signing the audit opinion as the instructions for the Whole of Government Accounts (WGA) work had yet to be issued by the National Audit Office (NAO) at the date of signing. These instructions have since been issued, confirming the Council was below the audit threshold. We have since made the required submissions to the NAP, and we will issue the certificate of completion of the audit in January 2021.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council rapidly delivered new and essential support to residents and businesses to help them in this crisis, dealt with the administration of the grants to businesses, made staff redeployments to ensure the Council could continue to deliver critical services during lockdown and negotiated the additional challenges of recommencing/reopening services under new and changing government guidelines.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and we reported a financial statement level risk in respect of Covid-19 and highlighted the impact on our VfM approach.

Restrictions for non-essential travel meant both Council and audit staff worked remotely, including the remote accessing of financial systems, video calling, and verifying the completeness, accuracy of information produced by the entity through online screensharing.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
January 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,397,080, which is 1.99% of the Council's gross cost of services. Materiality for the audit of the group financial statements was determined to be £1,398,000 based on the same benchmark. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for cash (£500,000) and senior officer remuneration (£50,000).

We set a lower threshold of £69,900, above which we reported errors to the Audit, Finance and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council and group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The current circumstances have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff impact potentially impacting on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets increased the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty has required management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements have required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We : • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The completed draft financial statements were provided on 8 July 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.	As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by the professional valuer relating to land and buildings, and also by an investment manager for pooled property investments underlying the net pension liability. The uncertainty in the PPE valuation was accurately disclosed in the sources of estimation uncertainty note in Note 5 to the accounts Assumptions Made About The Future And Other Sources Major Sources of Estimation Uncertainty. We have included a 'Emphasis of Matter' in our audit opinion to ensure that users of the accounts are aware of the material uncertainty. The material uncertainty relating to the pooled property investment underlying the net pension liability was also disclosed in Note 5 Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty, after the issue had been highlighted by the pension fund administrator.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Authority revalues its land and buildings on a five-yearly rolling basis to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date. This valuation is carried out by the professional valuers contracted by the Council. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management usually would operate a rolling programme of valuations, but in the 2019/20 year all assets were revalued at 31 March 2020. Management needed to ensure the carrying value in the Authority financial statements was not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We : - evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; - evaluated the competence, capabilities and objectivity of the valuation expert; - Wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; - challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; - assessed how management challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value; - tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; and - evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of land and buildings.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We : • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions, estimates and judgements made by using an auditor's expert. • obtained assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of the net pension liability.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We : - evaluated the design effectiveness of management controls over journals; - analysed the journals listing and determined the criteria for selecting high risk unusual journals; - tested unusual journals recorded during the year and as part of accounts production for appropriateness and corroboration; - gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence; - evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work did not identify any issues in respect of management override of controls.
Income from fees, charges and other service income Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Wealden District Council, we have concluded that the greatest risk of material misstatement relates to fees, charges and other service income where the timing of income recognition could be via subjective criteria determined by management. We have therefore identified the occurrence and accuracy of fees, charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.	We : - evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice; - updated our understanding of your system for accounting for income and evaluate the design of the associated controls; - reviewed and sample tested income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; and - evaluated and challenged significant estimates and the judgments made by management in the recognition of income.	Our audit work did not identify any issues in respect of revenue recognition.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and group's financial statements on 29 November 2020.

Preparation of the financial statements

We were presented with draft financial statements in July 2020 in accordance with the agreed timescale, and we were provided with a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams had to perform the audit entirely remotely. This has required the audit team to use regular video calls to keep in close contact, to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements and to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Audit, Finance and Governance Committee on 10 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We were unable to certify that we had completed the audit of the financial statements of the Council at the date of signing the audit opinion as the instructions for the Whole of Government Accounts (WGA) work had yet to be issued by the National Audit Office (NAO) at the date of signing. These instructions have since been issued, confirming the Council was below the audit threshold. We have since made the required submissions to the NAP, and we will issue the certificate of completion of the audit in January 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. We identified medium term financial sustainability as the significant risk around Value for Money for the authority. The work we set out to address the risk was:

- Reviewing performance in the current 2019/20 year against budget as a means of assessing the reasonableness of the authority's budgeting methods;
- Reviewing management's methods/processes in building the budget and Medium Term Financial Strategy;
- Understanding and challenging the key assumptions and estimates, particularly those that are highly judgemental, and comparing these to other authorities and our overall sector knowledge;
- Assessing and understanding how the authority sets the level of minimum reserves which should be held to maintain council services/funds through uncertainty, and concluding on whether the management considerations in setting the level are reasonable; and
- Discussion and consideration of the authorities regeneration/development plans, income generation plans and other areas of future uncertainty.

Overview

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. The Council entered the 2019/20 year in a strong financial position to face the oncoming uncertainty and expected recession that Brexit was anticipated to bring with it. Having achieved favourable surplus General Fund results positions for several years due to careful financial management, the Council has brought forward £30.1m of General Fund and Earmarked Reserves into the 2019/20, a level which is higher than other local district Councils.

The Covid-19 pandemic has meant that the financial position for 2020/21 and the medium term has become more challenging, but at this point in the financial year the Council still has a strong grip on in year financial performance and is remodelling the Medium Term Financial Strategy (MTFS) to clearly map out a plan to 2025 that will maintain the financial sustainability of the Council. Remodelling of the MTFS has indicated that the previously identified budget gaps are likely to be larger when the forecast impacts of the pandemic and likely economic downturn are included as best estimates.

The Senior Leadership Team, is currently working through a Star Chamber Process in order to set the 2021/22 budget and the MTFS for 2021/22 to 2025/26 and address these budget gaps with savings plans. The Star aims is to get 'under the skin' of each service alongside budget holders, and to provide support but also challenge in identifying options which might not have been apparent to the budget holder without this additional forum.

Impact of Covid-19

The Council's response to the emergency has seen rapid delivery of new and essential support to residents and businesses to help them in this crisis. The Council has also provided significant levels of financial support through Council Tax support grants and hardship funds to assist residents in paying their bills. The Council has also paid out over £38m to more than 3,500 businesses and processed business rate suspensions for over 2,200 businesses.

Value for Money conclusion

In June 2020 the Council established a Restart and Recovery Plan to set out how it would adapt to providing the services essential for the District and how business operations would restart and recover in a safe and sustainable way. We considered this to be an action-orientated plan which will ensure that the Council's services do have a 'roadmap' to plan ahead for different potential outcomes (such as subsequent spikes, and different economic scenarios of timing of furlough changes) in this highly uncertain period.

In terms of financial planning since the impact of Covid-19, the Council has been required to submit MHCLG Covid-19 income and expenditure pressures return every month since it was introduced in April 2020. This requires the Council to accurately report the additional income and expenditure impacts which are attributable to Covid-19. We were satisfied that the Finance Team had established a robust way to compile and report this data, and this data was being used in turn to inform forward forecasting of the year and medium term plans in the context of the pandemic.

Based on the August return to MHCLG, the analysis of Covid-19 pressures shows that the pandemic is likely to impact the Council negatively by £3.2m over the full 2020/21 year based on the year to date additional costs/income pressures extrapolated over the year. On the basis of government funding paid and announced to date which would fund this gap, this indicates there could be an unfunded gap of approximately £800k. This could still be covered by additional government funding yet to be announced.

The Finance Team have used this analysis of pressures to remodel the MTFS, using the MTFS agreed in February 2020 as the base. This has given an early indication that 'budget gaps' identified in the MTFS for each year between 2021/22 and 2024/25 will be likely to increase by between £0.2m and £0.5m each year.

We have reviewed the current remodelling process for the MTFS and discussed the method and key assumptions underlying this. We were satisfied that these were reasonable. We did however issue a recommendation that

when the MTFS is fully remodelled for approval by Cabinet that a best/worst case scenario model is presented as part of the introduction, and that this shows the impact on the overall results/'budget gap' of flexing variable costs upwards/downwards in a simple format. This scenario planning can add to the assurance level given by the MTFS by demonstrating that a worst case scenario has been considered.

Planning for 2021/22 and beyond

We discussed and reviewed the method for building the MTFS and in particular the robustness and realism underlying key assumptions, the savings plans which are included and any areas where significant new and increased areas of revenue have been included.

In order to ensure that efficiencies and savings plans are identified for the subsequent years, and to ensure the 2021/22 budget and MTFS reflect as accurately as possible the current outlook and plans for each of the Council's service areas, the Senior Leadership Team is currently working through a Star Chamber Process. This process aims to provide a challenging but supportive forum for examining current and future budget plans with the aims of ensuring value for money, identifying efficiencies and diverting resources into Council priorities and away from non-priorities, as well as alternative methods of delivery.

We have reviewed key documents evidencing the planning for the Star Chamber process. This process should lead to the assumptions in the MTFS being challenged for realism and reasonableness, and our view was that with adequate 'buy-in' from budget holders, this process could add significant value in identifying efficiencies and savings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	November 2020
Annual Audit Letter	January 2021

Fees

	Planned £	Actual fees £
Group audit	43,067	49,527
		(Note 1)

Audit fee variation

There is additional work which was necessary to be carried out during the audit due to the added complexities of the impact of Covid-19.

Note that all fee variations are also subject to PSAA approval.

A. Reports issued and fees continued

Fees for non-audit services

Service	Proposed fee	Final fee
Audit related services		
Certification of Housing capital receipts grant 2019/20	5,000	TBC
Certification of Housing Benefit Claim 2019/20	9,500	TBC
Non- Audit Related Services		
CFO Insights subscription	4,400	4,400
Place Analytics subscription	8,000	8,000
Total non- audit fees (excluding VAT)	£26,900	£TBC

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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