Tandridge District Council

STRATEGY & RESOURCES COMMITTEE – 25TH JULY 2019
APPENDIX ‘B’ TO AGENDA ITEM 5

Deloitte.

Tandridge District Council

Update report to the Audit Committee on the audit for the year ended 31 March 2019

Issued on 22 July 2019 for the meeting on 25 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.

We have pleasure in presenting an update report to the Audit Committee of Tandridge District Council (the Council) for the 2019 audit. Our audit work is on-going, and we will issue an updated report following finalisation of the outstanding matters detailed below. The scope of our audit was set out within our planning report presented to the committee in April

Status of the audit

Our audit is ongoing and will not be completed prior to the 25 July 2019 committee meeting. We are continuing to work with management towards meeting the overall deadline of 31 July for the publication of the statement of accounts.

The principal open area is in respect of completion of work on property valuations including responses from the Council's valuer on queries raised.

Other less significant outstanding matters are detailed on page 23.

We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report.

We will provide an oral update to the committee in the meeting.

Conclusions from our testing

- The key judgements in the audit process related to
  - The assumptions made in completion of the land and buildings revaluation;
  - The assumptions used in valuing the Council's defined benefit pension liability.
- Several presentational changes, disclosures and an adjusted misstatement have been identified in our audit work to date which do not impact on the substance of the accounts. Management intend to adjust for any final unadjusted items following the completion of our remaining work.
- We have not identified any matters to date that, subject to satisfactory resolution of the outstanding matters noted above, would affect our ability to issue an unmodified ("unqualified") opinion on the accounts and Value for Money arrangements.

Introduction

The key messages in this report (continued)

Narrative Report and Annual Governance Statement	• We considered arrangements around the Council's investment in properties. From our risk assessment, we did not identify any significant risks in respect of the Council's governance arrangements around the transactions. The Public Accounts Committee and National Audit Office have raised issues over the longer terms risks to Council finances and services from commercial investments, which is likely to result in increased scrutiny in this area in future. • We do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. • We have suggested a number of minor changes to management for consideration which have been adopted.
Duties as public auditor	• We did not receive any queries or objections from local electors this year. • 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 Council is below the threshold for detailed WGA procedures • 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.

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.

The Council has progressed with a number of regeneration and major projects during the year.

Scoping
There have been no changes to the scope of our work which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO. We will not scope out any significant items or items that would have a material impact on the financial statements. The only significant component of the Group is the Council. We have considered the group investment property balance as part of property valuation testing.

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 from page 12 of this report.

Determine materiality
When planning our audit we set our group materiality at £1.3m based on approximately 2% of gross expenditure of the prior years audited financial statements. Materiality has not changed since our planning report. We report to you in this paper all misstatements above £65k.

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 observations on these risks arising from our work carried out on these risks in this report. No additional risks have been identified since our Audit Plan.

Conclude on significant risk areas
We draw to the Committee's attention our observations on the significant audit risks from the work so far performed. The Committee members must satisfy themselves that management's judgements are appropriate and will need to agree arrangements to consider any significant findings arising from audit work which is not yet complete.

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

Significant risks

Completeness of Expenditure and Accruals

Risk identified
Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals.

For 2018/19, the Council approved a budget with a net cost of service of £9.98m. As at the end of the year, the Council reported a net underspend of £64k. 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 and provisions.

Deloitte response

We have considered the overall sensitivity of judgements made in relation to year-end accrual, and note that:

- We obtained an understanding of and tested the design and implementation of the key controls in place in relation to recording completeness of expenditure and accruals;
- We performed focused testing in relation to the completeness of expenditure including a detailed review of expenditure and accruals;
- We have performed testing for unrecorded liabilities based on payments made and expenses recorded in the period after year end to mid June;
- As part of the above focused testing, we challenged the assumptions made in relation to year-end accruals; and
- In addition, we have reviewed significant movements in accruals year on year and evaluated for consistency with our understanding of the Council and, where considered appropriate, corroborated the reason for movement to supporting information.

Deloitte view

Our work is ongoing, however have not identified any exceptions for the items where we have received full information.

Significant risks

Management override of controls

Risk identified
In accordance with ISA 240 (UK) management override is a 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 Council's controls for specific transactions.

Deloitte response

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

- The Council's results throughout the year were projecting underspends in operational areas. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood; 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

- We did not identify any material unusual transactions outside the normal course of business.

Journals

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

We have used Spotlight 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.

While our work in this area is on-going, no issues have been noted to date.

Accounting estimates

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

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.

Property and pensions estimates are discussed on the following pages.

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

Our investigation of journals identified for testing through data analytics did not identify journals used to override controls.

Significant risks
Valuation of property assets

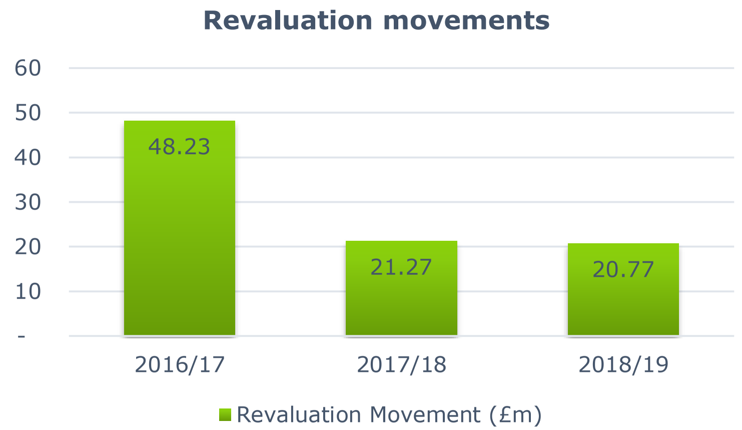
Risk identified
The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council held £366.5m of property assets at 31 March 2019, an increase of £13.8m, including a net revaluation gain of £20m and £5m of additions.

The Council updates the valuation of its properties using a rolling revaluation programme. In 2018/19, the Council valuers performed a desktop revaluation of all Council dwellings using a Beacon methodology.

Below is an analysis of the revaluation movements over three years:



Deloitte response

- We tested the design and implementation of key controls in place around the property valuation, including how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation.
- We obtained an understanding of the approach to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check if has been correctly recorded.

Deloitte view
The work of our Deloitte Real Estate team is on-going, as we are awaiting responses on a number of queries from the Council's valuers. Until final queries with the valuer are received and our work is complete there remains the potential for changes in asset values.

Other matters

Defined benefits pension scheme

Background

The Council is an admitted body of the Local Government Pension Scheme, administered by Surrey County Council. The net pension liability has increased from £45.8m at 31 March 2018 to £52.3m at 31 March 2019 primarily as a result of increase in the inflation rates and movements in asset values.

The Council's pension liability is 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. The Council's actuary has calculated the impact of the Mccloud judgement, which will be updated in the final financial statements.

Deloitte response

- We obtained a copy of the actuarial report for the Council Pension Fund produced by Hymans Robertson, 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 Hymans Robertson, including benchmarking as shown in the table opposite.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements as at 31 March 2018 and performed analytic procedures to test the asset value and movements for the year.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.36	Reasonable
Retail Price Index (RPI) Inflation rate (% p.a.)	3.40	3.05	Prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.50	2.25	Slightly Prudent
Salary increase (% p.a.) (over RPI inflation)	1.1	Council specific	Prudent
Pension increase in payment (% p.a.)	2.50	2.25	Reasonable, slightly prudent
Pension increase in deferment (% p.a.)	2.50	2.25	Reasonable, slightly prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22.50	22.50	Reasonable
Mortality - Life expectancy of a female pensioner from age 65 (currently aged 45)	24.60	24.60	Reasonable

Deloitte commentary on findings to date

Our work is ongoing.

The draft financial statements did not include any amounts for the impact of the McCloud case (in common with other organisations). Following the conclusion of litigation, the impact of this should be included in the pension liability. The Council's actuary has calculated the impact, and Council has updated the financial statements.

Implementation of IFRS 9 and IFRS 15

Matter identified

The Council 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 Council tax and business rates are outside of the scope of IFRS 9 and IFRS 15.

The Council has posted no retrospective adjustments with regard to IFRS 9 or IFRS 15 as there is no material impact on the financial statements.

Response

Officers held discussions regarding the accounting impact of the new standards for the period and determined that the impact is immaterial on measurement requirements. We concur with management's assessment in respect of IFRS 15 based on identification of income streams within/outside IFRS 15, which is in line with the general expectation for local authorities which have not entered into material unusual transactions. We are finalising our work on the IFRS 9 provision for expected credit losses, but this is not a material provision.

There are a number of changes in disclosure requirements where we have reviewed and challenged the disclosures and management are updating disclosures made.

Deloitte view

Management's conclusion that the new accounting standards do not have a material impact for the Council is consistent with the conclusion of other local authorities and the absence of unusual transactions or income streams which may require a different accounting treatment.

The disclosures in the financial statements require updating to reflect the disclosure requirements of IFRS 9 and 15.

We note that the council has £2m of investments with the Funding Circle, held at amortised cost net of a provision of £32k for bad debts. Given the materiality of the balance and current economic conditions, there is limited risk on the level of provision - however, we note that if investment increases and/or the risk of credit losses increases then this may require additional consideration in future years.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

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.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report. We also set out in our audit planning report the two areas of significant risk identified by our risk assessment procedures performed at that point. We did not identify any further significant risks from our remaining risk assessment procedures.
As part of our risk assessment, we have considered information from a combination of:

- we considered the appropriateness of the governance arrangements and due diligence performed and external advice taken around large investments in year;
- we discussed the Council's arrangements with Grant Miles (Deputy CFO) and Martin Field (Finance Specialist)
- We have reviewed the internal audit reports;
- we reviewed the Council's draft Narrative Report, Annual Governance Statement and relevant Council papers and minutes;
- we considered the Council'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, in particular decisions around commercialisation;
- consideration of issues identified through audit of the financial statements; and
- consideration of the Council's results, including benchmarking of actual performance.

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

Deloitte view

No significant risk in respect of VFM was identified during our initial risk assessment. We updated our initial risk assessment in June 2019 for outturn information, review of internal audit reports, review of draft annual governance statement and review of the budget and MTFS. No significant risk was identified based on this assessments and based on the status of the current status of our audit, we will issue an unmodified ("unqualified") opinion.

We note that the Council has plans for significant property investment, including in commercial property, primarily funded by borrowings. This is permitted under the MHCLG guidance, subject to appropriate disclosure in the Capital and Investment Strategy that the council is doing so (included in the 2019/20-2021/22 strategy) and of the risk management arrangements. As the Council's property investments become more significant, the level of disclosure in the financial statements, narrative report and annual governance statement will need to increase to reflect this growth.

Other significant findings

Internal control

During the course of our audit we have identified a number of internal control findings, which we have included below for information. IT observations, which are consistent with observations raised by internal audit in this area, are included in the Appendix

<table>
<tr><th>Area</th><th>Observation</th><th>Priority</th></tr>
<tr><td>Quality of draft financial statements</td><td>A number of issues were noted with the initial draft financial statements which were published for public inspection and presented for audit, including: inconsistencies between primary statements and notes; accounting policies and disclosures requiring update for the adoption of IFRS 9 and IFRS 15; other disclosure changes from the current year; and sundry other disclosure deficiencies.

Together these indicate areas for improvement in the financial reporting and close process. We recommend the Council reviews 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 Council;
• documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts;
• Documented review of working papers to ensure internal consistency of the financial statements, the CIPFA "pre-audit checks on draft year-end accounts" checklist; and internal tie back and referencing of the draft financial statements to supporting working papers.</td><td></td></tr>
</table>

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

Area	Observation	Priority
New accounting standards – IFRS 9 and 15	Whilst we understand that officers discussed the impact of adoption of the new standards during the closure process, they did not prepare accounting papers on the transition to IFRS 9 and 15. The initial draft accounts were not updated for changes in disclosure requirements from IFRS 9 and 15. Although managements have not identified any material changes to the financial statements, we highlight that because the new standards have been discussed as a one off exercise, new requirements will not have been embedded in the Council'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 that the Council reviews 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 Councils 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 that the Council 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 Council's underlying accounting systems.	

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 Council): - 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 note that there is scope for additional discussion of: • The Council's operational model, in particular in respect of increased investment; • Risks and opportunities; and • Outlook. 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.
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. We have no exceptions to report.
Observation	We note that a key area of both risk and opportunity for the Council is the planned Investment and Development Fund. Given the planned values of this fund, the level of discussion of risk (including concentration risk from focus upon local property rather than a mix of investment types) will need to increase as this progresses	

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council 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 Council.

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

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

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

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

Ben Sheriff

Ben Sheriff

for and on behalf of Deloitte LLP

St Albans

22 July 2019

Appendices

Audit adjustments
Unadjusted misstatements

We have not identified any unadjusted misstatements during the course of our audit

Audit adjustments
Disclosures

Disclosure deficiencies

We have reviewed the accounts and annual report, and have passed several recommendations on these to management. Management has indicated their willingness to implement these recommendations, and therefore we do not expect there to be any uncorrected disclosure deficiencies.

We will provide an update after receipt and review of the updated financial statements.

Audit adjustments
Corrected misstatements

The following corrected misstatements have been identified during the audit process.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	*Memo: Debit/ (credit) usable reserves £m*	If applicable, control deficiency identified
Misstatements identified in current year						
Classification of partnership income	[1]	0.6 (0.6)				
Total		-				

(1) Classification of Partnership income £622k- From our review, we noted that the nature of this credit is income, therefore should be included in gross income instead of credit in expenditure.

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 Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

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 capital expenditure 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 Annual Governance Statement.

Concerns:

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

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
Non-audit fees	We do not provide any non audit services and there are no are no other non-audit fees.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees (continued)

	Planned £ (excl. VAT)
Code audit fee	35,536
Total audit	**35,536**

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 additional iterations of the financial statements.

We will calculate the additional costs incurred following completion of the audit for agreement with the Council and Public Sector Audit Appointments Limited. Additional time is charged using the following rate card:

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

Outstanding matters

As noted on page 3, our audit is ongoing and will not be completed prior to the 25 July 2019 committee meeting. We are continuing to work with management towards meeting the overall deadline of 31 July for the publication of the statement of accounts.

The finalisation of our audit is dependent upon:

- completion of work on opening balances of assets;
- completion of work on property valuations including responses from the Council's valuer on issues arising;
- receipt and review of the analysis of IFRS 9 and 15 classification of debtors balances;
- receipt and review of finalised financial statements, including consistency checks and tie back to underlying documentation;
- receipt of outstanding items on miscellaneous other areas of testing;
- receipt of bank confirmation letter from Santander and HSBC;
- receipt of information from Pension Fund auditors confirming procedures completed in their audit;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2019 through to signing.

IT audit findings
Internal control

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

Area	Observation	Priority
IT Controls and Governance policies and procedures have not been updated for the current financial year	During our review of key financial applications, we noted that key IT related policies and procedures have not been reviewed and updated for the current financial year. These include - Information Security Policy - Last updated October 2016 (Last approved version unavailable). - Use of Technology - Last updated January 2017 (Last approved version unavailable). - Acceptable Use Plan - Last updated October 2016 (Last approved version unavailable). Furthermore, we noted that a documented and approved Business Continuity and Disaster Recovery Plan (Covering Backups) does not exist There is a risk that policies and procedures used by end users, or management may not be aligned to the current IT Environment, thereby reducing the level of security in place. We recommend management review and update the IT related policies to align with the current business environment of the Council.	●
Segregation of duties between developers and change promoters is not in place	Segregation of duties between developers and change promoters is not in place- During our review of key financial applications, we noted that segregation of duties between developers and change promoters is not enforced. The IT Team perform the changes on the respective application, where possible, and promotes the change into the production environment or the vendor performs the change and promotion of the change. There is a risk that users make inappropriate changes to application source code, and migrate the change, thereby going undetected. We recommend management ensure there is appropriate segregation of duties between developers and change promoters.	●
Password settings are not enforced do not align with good industry practice	During our review of key financial applications, we noted that the Information Security Policy (Last updated October 2016) adopted by the Tandridge District Council does not capture sufficient detail in relation to good industry practice, including areas such as: a. Password expiry b. Lockout threshold c. Lockout duration d. Complexity e. Password History. Furthermore we noted that the following systems are not compliant with the Information Security Policy: - Domain: Password history, Password Expiry - Agresso: Password Length We recommend that the coding structure is amended to facilitate elimination of internal recharges in the Comprehensive Income and Expenditure Statement and to readily demonstrate that this has been done in full.	●

Other significant findings

Internal control

Area	Observation	Priority
Segregation of Duties between System Administrators and Business Users is not in place	During our review of key financial applications, we noted that segregation of duties between system administrators and business users is not enforced. The following applications have business users allocated administrator rights, due to the small numbers within the respective teams: - E-Financials: System Administrator access allocated to the Finance Specialists. - IAS: System Administrators access allocated to the Case Officers. - Orchard: System Administrators access allocated to a Consultant There is a risk that business users who have administrator access on the respective applications may alter configuration or create ghost users to remove accountability for inappropriate activity We recommend management put in place measures to ensure segregation of duties between system administrators and business users.	
IT policies do not specify password requirements	During our review of key financial applications, we noted that the Desktop and Laptop IT Security (last updated April 2017) does not capture: a. Password expiry b. Lockout threshold c. Lockout duration d. Password History There is a risk that applications are configured with weak password parameters, thereby allowing inappropriate users to circumvent IT security controls in place. We recommend capturing these key elements in the IT policy.	
User access reviews are not in place for key financial applications-	During our review of the IT Environment we noted that there are no formalized user access reviews in place for any of the in-scope applications. We recommend putting in place a programme of periodic user access reviews.	