

AUDIT & SCRUTINY COMMITTEE
TUESDAY, 28TH NOVEMBER, 2023 AT 7.30 PM

Supplementary Agenda

To all members of Audit & Scrutiny Committee: The following papers, which were not available for dispatch with the agenda, are attached. Please bring them with you to the meeting:-

Agenda No	Item
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- | | |
|----|---|
| 6. | External Audit Update (Pages 3 - 40) |
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Yours faithfully,

David Ford

Chief Executive

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External Audit Update - 2021/22

Audit & Scrutiny Committee Tuesday, 28th November 2023

Report of: Chief Finance Officer (Section 151)

Purpose: Information

Publication status: Unrestricted

Wards affected: All wards

Executive summary:

This report updates the Committee on the progress of the external audit of the 2021/22 statement of accounts.

The report also sets out progress to-date in addressing audit fees with Deloitte for the financial years 2019/20, 2020/21 and 2021/22.

This report supports the Council's priority of: Building a better Council.

Contact officer Mark Hak-Sanders Chief Finance Officer (S151)
mhaksanders@tandridge.gov.uk

Recommendation to Committee:

- A) That Committee notes the 2021/22 external audit progress.
 - B) That Committee notes progress on addressing audit fee proposals.
-

Reason for recommendation:

Local authorities are required to prepare an annual statement of accounts, publish such accounts and have those accounts audited. Audit and Scrutiny Committee is responsible for approving the final audited statements.

Overview

1. On 27th June 2023, the Council's External Auditors, Deloitte, set out their final audit plan for 2021/22. Deloitte presented the plan to Committee, setting out their approach and highlighting the principal matters that the audit will focus on.
2. The Committee were informed at the September meeting that the 2021/22 audit had started in July 2023. An audit project plan had been drawn up with the aim of completing the audit by the end of October 2023. It was reported to the committee that there was a significant risk that this deadline would not be met due to conflicting priorities which had delayed the provision of information to the external auditors. The Deloitte progress report and a draft Audit Findings report have been attached to this report as Appendix A.
3. The audit of the 2021/22 statements is progressing. As detailed in the progress report some areas of the audit have been substantially completed in terms of testing. Whilst both the Council and Deloitte made every effort to adhere to the plan other areas remain still in progress. The Finance team continue to have regular meetings with Deloitte to discuss and progress the audit. The project plan will continue to be closely monitored and reviewed in line with progress made in the bi-weekly meetings.
4. As reported to the committee in September in an attempt to catch up with the 2021/22 and 2022/23 audits the proposed timetable was very challenging for both Tandridge officers and Deloitte. To progress the audit Deloitte plan to focus resources on their work to support the audit opinion towards the end of November with a view to complete audit testing by the end of 2023, with audit sign off early 2024. This plan will continue to be closely monitored and reviewed in line with progress made in the bi-weekly meetings.

Audit Fees

2019/20 and 2020/21

5. As previously reported the fee proposals from Deloitte are as follows:

- 2019/20: £136k
- 2020/21: £209k
- **Total: £345k**

This can be compared to the standard scale fee of £36k per year for both 2019/20 and 2020/21. It represents a 479% increase and 3% of the Council's annual budget.

6. As reported to committee in September the Section 151 officer, having not been able to resolve the matter with Deloitte, referred the matter formally to PSAA for resolution.

7. The section 151 officer met with Public Sector Audit Appointments (PSAA) in early October to discuss the fee proposals. As advised by the PSAA the next step in the process was to send through evidence of our fee challenge setting out the difficulties we had faced during the audits and the reasoning behind why we do not feel the additional charges were justified.
8. This evidence has now been sent to PSAA and we are awaiting their response.

2021/22 Audit fees

9. The scale fee set by PSAA for the 2021/22 audit is £36k (the same as the previous two years). Deloitte have stated in their report attached (page 25) that they have proposed an increase to the audit fee to £66k with a further £63k of fees due to delay in providing information. This figure is provisional and further amendments may be proposed. Similarly the Council will continue to challenge any proposed fees if it does not deem them to offer value for money.
10. The Council has not agreed to pay any additional audit fees and Committee approval will be sought for any fees paid in respect of 2019/20, 2020/21 and 2021/22.

Addressing the Local Audit backlog

11. The Department for Levelling Up, Housing and Communities (DLUHC) has been working with the Financial Reporting Council (FRC) on proposals to address the significant backlog of local government audits. Working together the National Audit Office (NAO) and DLUHC) intend to set a series of statutory deadline for account preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present.
12. Auditors would provide as much assurance as possible for the outstanding years reporting significant concerns they may have. Reporting on Value for Money will remain a high priority. The principles have been agreed in principle with key partners.
13. The cut off dates have not been formally announced although 31 March 2024 has been discussed. This deadline may result in qualifications and disclaimers of opinion in the short term for a number of local bodies.
14. The NAO has established a dedicated programme board, supported by at least three working groups, to develop the potential changes and related technical questions with stakeholders. The changes will be implemented following further engagement and we will report back to committee when more details are available.

Consultation

Not required.

Key implications

Comments of the Chief Finance Officer

The financial implications of the report are set out above. The external auditor has pointed out that it is likely that fee variations will be required. The Chief Finance Officer will advise Deloitte that, in accordance with PSAA requirements, the fee implications should be discussed with management at the earliest opportunity and will be subject to Committee approval.

Comments of the Head of Legal Services

In relation to the Council's Constitution and the specific role and responsibilities of this Committee the Constitution provides that the overall purpose of the Committee is *'to be responsible for the review and scrutiny of the decisions and performance of the Council, audit arrangements and providing opportunities for other organisations to present / explain key aspects of their local services'*. In particular, the Committee is responsible for overseeing both internal and external audit helping to ensure that efficient and effective assurance arrangements are in place.

To discharge its functions effectively, the Committee is required to operate within their agreed Terms of Reference. The external auditor's plan is designed to ensure that.

Equality

There are no Equalities implications directly arising from the statutory audit of the financial statements.

Climate change

There are no Climate Change implications directly arising from the statutory audit of the financial statements.

Appendices

Appendix A – Deloitte's draft report to the Audit & Scrutiny Committee on the 2021/22 audit.

Background papers

None

----- end of report -----

Deloitte.

Tandridge
District Council



Tandridge District Council

Report to the Audit & Scrutiny Committee on the 2021/22 audit

Issued on 22 November 2023 for the meeting on 28 November 2023

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our report to the Audit & Scrutiny Committee of Tandridge District Council (the Council) for the 2021/22 audit. The scope of our audit was set out within our planning report presented to the Committee in June 2023.

Status of our Statement of Accounts audit

Our audit is progressing as at the date of this report. We have substantially completed testing on intangible assets, investments, and borrowings. Moreover, Cash and cash equivalent and collection fund are currently under review.

However, most of other areas are still in progress and we are waiting for the information to complete the audit, key outstanding are as follows:

- journals testing;
- debtors and creditors testing;
- income and expenditure testing;
- conclusion on property valuations;
- conclusion on the pension liability and assumptions;
- miscellaneous outstanding sample items and follow up queries;
- value for money;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2022 through to signing.

We have included a section in this report providing a summary of the risks, planned procedures and any issues to date arising from the work on the areas of significant risk and other areas of audit focus.

Status of our Value for Money audit

Our work in this respect is expected to start toward the end of November, the work to support our audit opinion including an update on the significant weaknesses identified in the prior year will need to be completed before we are able to sign the audit opinion.

Introduction

The key messages in this report (continued)

Conclusions from our testing

- We have not identified any material audit adjustments or disclosure deficiencies to date, except as disclosed in this report, but this is subject to the finalisation of the audit.

Narrative Report & Annual Governance Statement

- We have reviewed the Council's Annual Report including narrative statements and financial statements and undergoing the review of Annual Governance Statement (AGS) to consider whether it is misleading or inconsistent with other information known to us from our audit work.
- We have made recommendations for some changes to the narrative statements and financial statements at this stage, and we will review the updated version and to ensure whether recommended changes are updated.

Duties as public auditor

- We did not receive any queries or objections from local electors in respect FY21/22 to date.
- We have not identified any matters to date 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 not a sampled component for WGA reporting.

Responsibilities of the Audit & Scrutiny Committee

Helping you fulfil your responsibilities

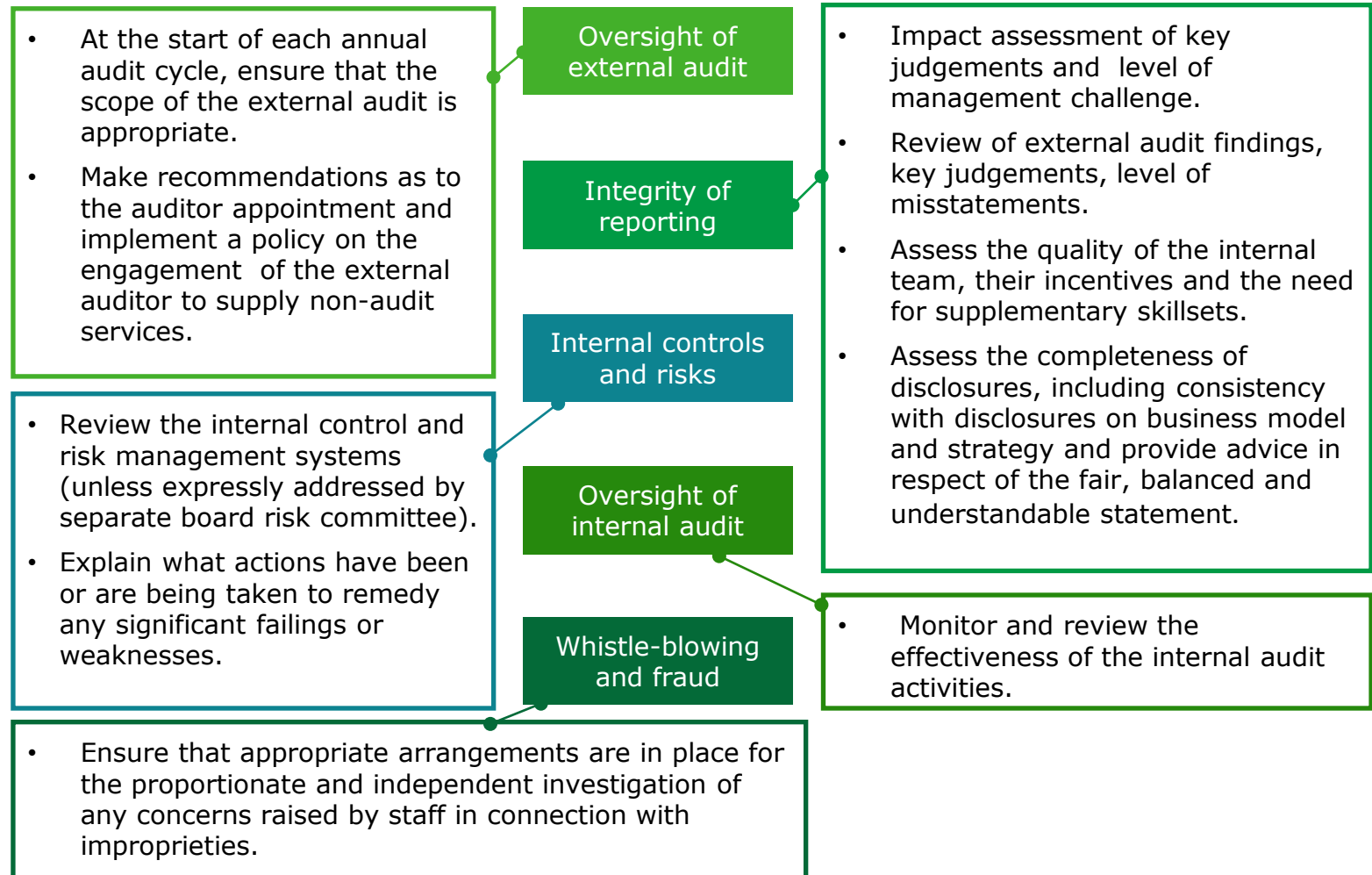
Why do we interact with the Audit & Scrutiny Committee?



We use this symbol to highlight areas of our audit where the Audit & Scrutiny Committee needs to focus attention.



As a result of regulatory change in recent years, the role of the Audit & Scrutiny Committee has significantly expanded. We set out here a summary of the core areas of Audit & Scrutiny Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit & Scrutiny Committee in fulfilling its remit.



Quality indicators

Impact on the execution of our audit



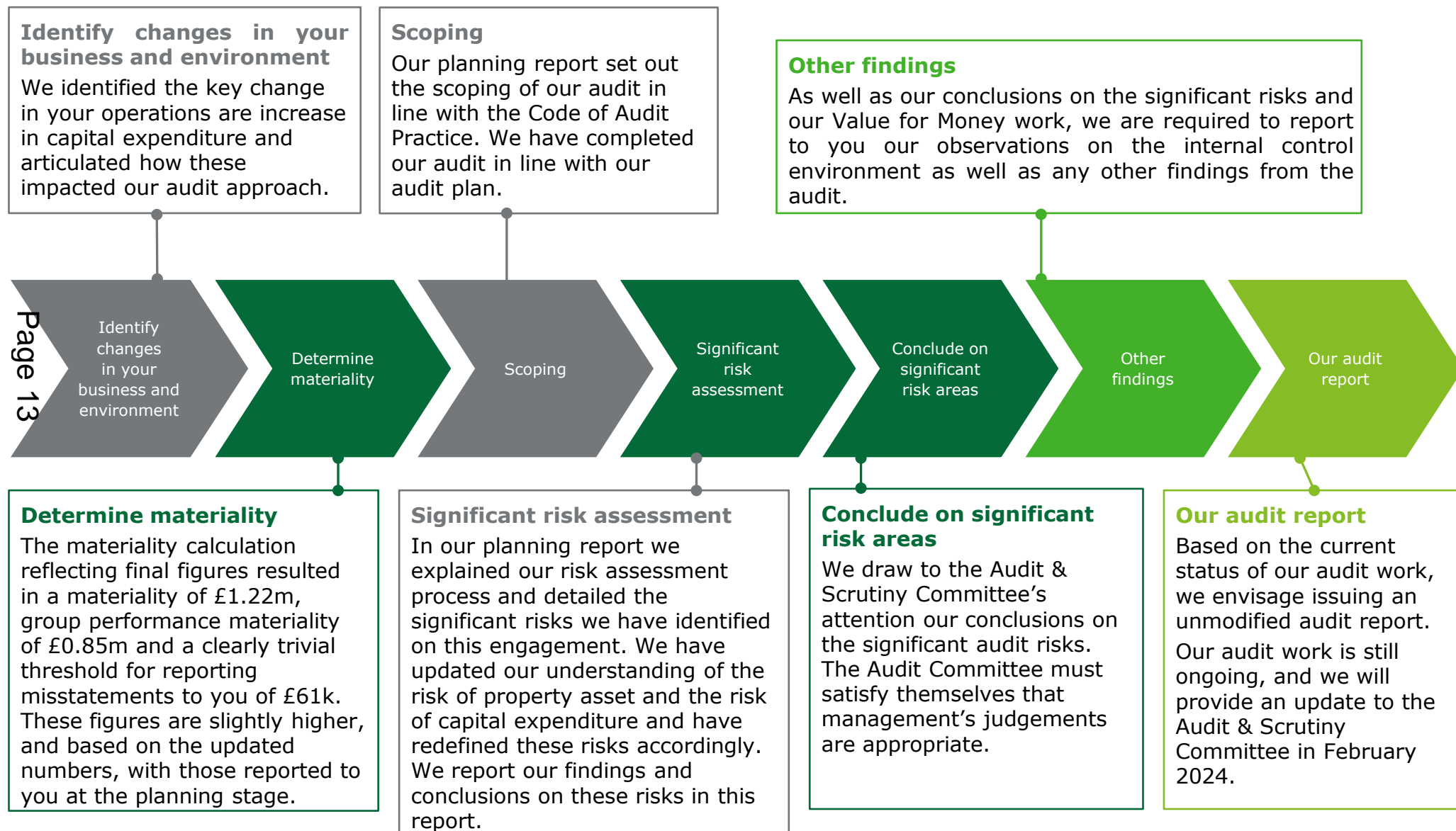
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics which can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

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Area	Grading	Further detail
Adherence to deliverables timetable		<p>There have been challenges throughout the audit in this regard which have caused delays in the finalization of the audit. We prepared various project plans throughout the audit, however commitment to meeting these dates have not been agreed with management. On various occasions management could not deliver on the committed date we understand that this is mostly due to other priorities.</p> <p>Since we are unsure when we can receive the relevant information, we are unsure about when and how this audit will be completed. At this stage, we are keeping one staff to process any information provided by the management.</p> <p>We have checked the Connect in relation to the timeliness of information. The average overdue days reflected by the Connect is 13, which shows that it took on average 18 days (5 days agreed for each request to be provided) to get to the requested information.</p>
Access to finance team and other key personnel		<p>We have scheduled bi-weekly calls between our team and the council throughout the audit to ensure that audit requests are being discussed on a timely basis to ensure any issues are resolved on a timely basis.</p>
Quality of draft financial statements		<p>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. We have made recommendations for some changes to the narrative statement, and we will review the final version and check whether recommended changes are updated.</p>

Our audit explained

We tailor our audit to your organisation and your strategy



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Significant Risks and Areas of Audit Focus

Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations based on work to date	Page no.
Significant risks						
Valuation of property assets				In progress		9
Recognition of capital expenditure				Satisfactory		10
Management override of controls				*Not satisfactory		11
Area of Audit Focus						
Pension liability valuation				Outstanding		12

Controls approach adopted

Assess design & implementation

* The conclusion is in respect of testing of design and implementation of controls only which is further explained on page 14.

Significant audit risks and areas of audit focus

Valuation of property assets

Risk identified

The Council held £378.5m of land and buildings (including dwellings) at 31 March 2022 and £6.5m of investment property.

The Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate current value at that date. Given the material value of the assets, and judgemental valuation assumptions, there is a risk that property balances may be materially misstated.

The valuation of properties involves a range of assumptions and methodologies, including the selection of comparable properties and the assessment of market trends and conditions. These assumptions and methodologies are often based on subjective judgements and can be influenced by a range of factors, such as the experience and expertise of the valuer, the availability of data, and the prevailing market conditions. As a result, there is a risk that the valuation may be inaccurate or biased, which could result in a misstatement of the property's value.

Deloitte response and challenge

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We planned to perform the following procedures, some of these procedures are still ongoing:

- Review the design and implementation of the controls in place in relation to property valuations;
 - Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
 - Engage our valuation specialists, Deloitte Real Asset Advisory, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets – this work is currently being finalised;
 - Sample test key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
 - Review assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
 - Understand and challenge how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;
 - Review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
 - Test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.
 - Review the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.
-

Conclusion

We have not yet concluded on the work in its entirety, as we are still waiting to receive information to complete some of the procedures to be performed by the engagement team and specialist.

Any other issues noted from conclusion of engagement team and specialist work will be communicated to the Audit & Scrutiny Committee in the form of finalized ISA 260 letter later.

Significant audit risks and areas of audit focus (continued)

Recognition of capital expenditure

Risk identified	<p>Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the capital expenditure.</p> <p>The Council's capital expenditure in 2021/22 was £14.98m (2020/21 £10.19m).</p> <p>There is an element of judgement in applying the relevant capitalisation criteria for expenditure. We therefore consider that there is a risk for expenditure to be capitalised so that this expenditure does not impact the statement of comprehensive income.</p>
Deloitte Response and challenge	<p>We have planned the following procedures:</p> <ul style="list-style-type: none">• Obtain an understanding of and test the design and implementation of the key controls in place in relation to the determination of capitalisation expenditure;• Perform test of details of capital expenditures during the year 2021/22 on a sample basis to confirm that the capitalisation criteria has been met and complies with relevant accounting requirements;• As part of our testing, we will identify journals of increase audit interest within capital expenditure.
Conclusion	<p>We have not yet concluded on the work in its entirety, as some of the procedures being performed by the engagement team.</p> <p>Any issues noted based on the conclusion of engagement team work will be communicated to the Audit & Scrutiny Committee in the form of finalized ISA 260 letter later.</p>

Significant audit risks and areas of audit focus (continued)

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.

The key judgments in the financial statements are those which we have selected to be the significant audit risks and areas of audit interest: capitalisation of assets, valuation of the Council's estate and valuation of the pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte response and challenge In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- Test the design and implementation of key controls in place around journal entries and management estimates;
- Assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;
- Test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
- Review accounting estimates for biases that could result in material misstatements due to fraud in line with ISA 540 requirements; and,
- Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Conclusion We have not yet concluded on the work in its entirety, as we are still waiting to receive information to complete the procedures as the financial statement audit is being prioritised.
We, however, report deficiencies we have noted from our design and implementation testing of controls designed to prevent and detect management override of controls (see details on page 14-19).

Significant audit risks and areas of audit focus (continued)

Area of audit focus: Pension liability valuation

Risk identified

The Council are part of the Local Government Pension Scheme administered by Surrey County Council. At 31 March 2022, the Council recognised a net pensions liability of £51.8m with a defined benefit obligation of £145.3m and asset value of £93.5m. The Code requires that their year end carrying value should reflect the appropriate fair value at that date.

Hymans Robertson act as the Council's expert actuary, who produce a report outlining the liability and disclosures required for each council.

Deloitte response and challenge

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We have planned the following procedures:

- Obtain a copy of the actuarial report for the Council produced by Hymans Robertson, the scheme actuary, and agree the report to the Statement of Accounts pension disclosures.
- Review the disclosures made in the Statement of Accounts against the requirements of the Code.
- Seek assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- Assess the independence and expertise of the actuary supporting the basis of reliance upon their work.
- Review and challenge the assumptions made by Hymans Robertson with the support of our internal pension specialists.
- Assess the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- Carry out a separate, detailed risk assessment of each of the individual components of the liability calculation (for example market assumptions, membership data, assets and liabilities) using a developed methodology which takes into account factors such as an assessment of the actuary.
- Liaise with the scheme auditor on the results of their audit procedures on the scheme as a whole.
- Consider the make-up of the pension assets and the extent to which the asset types have been valued based on observable market prices or using estimation and judgement in the valuation and consider the extent of uncertainty in the asset valuation and the impact on our approach.
- Scope our work, including the nature and extent of our actuarial specialists involvement, in a way which responds to this detailed risk assessment.

Conclusion

We have not yet concluded on the work in its entirety, as the some of the procedures are currently being performed by the engagement team and specialist.

Any issues noted on the conclusion of our specialist work and from our review of audit report received directly from the auditors of the Surrey Pension Fund, will be communicated to the Audit & Scrutiny Committee in the form of finalized ISA 260 letter later.

Value for money

Our work has not commenced in this area

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria:
 - **Financial sustainability:** How the body plans and manages its resources to ensure it can continue to deliver its services.
 - **Governance:** How the body ensures that it makes informed decisions and properly manages its risks.
 - **Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report (which replaces the Annual Audit Letter), setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Our Value for Money work is necessarily retrospective and looking at arrangements in place for the 2021/22 financial year. Whilst information which comes to light about arrangements in place during the year under audit is of value, we are unable to have regard to evidence of improvements made in 2022/23 onwards.





Status of our work

We have prioritised the audit testing and have yet to commence our value for money procedures. However, we expect that our conclusion will be reported in our Auditor's Annual Report within the three-month timeframe specified under the National Audit Office Auditor Guidance Note 3.

Your control environment and findings


Control deficiencies and areas for management focus

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Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>Internal controls</p> <p>Under ISA, we are required to obtain the understanding of the relevant controls and perform design and implementation testing in respect of the significant risks, moreover, we are required to obtain understanding of the business process as part of our risk assessment. We noted that management could not provide the relevant evidence of control reviews having taken place in some instances including the following:</p> <ul style="list-style-type: none"> • Review of Covid-19 grants agreements to determine whether restricted or unrestricted funding. • Review of significant accounting estimates • Review of control accounts reconciliations • Review and sign-off of financial statements and management accounts <p>Management explained that the reason they could not provide evidence of review controls having been completed in some instances was because staff had left the council.</p>	<p>2021 Medium Control activities</p> <p></p>	<p>We recommend that management should devise a protocol to ensure the evidence of review controls is retained, even if personnel changes occur.</p>	<p>Management agree that evidence of control reviews should be documented more thoroughly in future.</p>
<p style="text-align: right;">  High  Medium  Low </p>			


Your control environment and findings

Control deficiencies and areas for management focus (continued)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>During the 2020/21 audit, we reported that the finance team have limited capacity and are under significant pressure much of the time. We have consistently observed that financial records do not appear to be of the detailed quality we would expect, and that management are having to invest considerable time seeking the information required for the audit. The turnover of staff has exacerbated this issue, however, had suitable records been retained, this should not have posed a significant challenge.</p> <p>We have noted that the persistence of this issue in this 2021/22 audit.</p>	<p>2021 high Control activities</p> 	<p>We recommend that management continue to review the resource requirements of the finance team and perform a detailed review of the processes in place to retain supporting evidence for financial reporting purposes. Retaining detailed evidence as transactions are reported should result in considerably less resource being required to support the audit and will ensure that the council meets the statutory requirement to retain suitable accounting records.</p>	<p>The Tandridge Finance Transformation programme has introduced a new approach to Corporate Finance, involving staff changes and significant support from Surrey County Council through the Joint Working Agreement.</p> <p>Management agree that the quality of working papers should improve in future, but this will be an ongoing process as much of 2021/22 accounts were produced under prior arrangements.</p>


Your control environment and findings

Control deficiencies and areas for management focus (continued)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>As part of review of the aged debtors in 2020/21, we noted that a total of £62,544 debtor balance has been outstanding for over 5 years. However, no substantial evidence was provided to precisely evidence the inclusion of these debtor balances in the provision calculation.</p> <p>This balance is still included in the financial statements for 2021/22. We have discussed with management and understand that prior year recommendation to provide for these would be included in 2022/23 statements.</p>	<p>2021 Medium Control activities</p> 	<p>In absence of the provision breakdown which reconcile back to debtor, there is a risk that management may be holding debtors that are not recoverable in their books.</p> <p>Management should develop a mechanism whereby they can identify specifically which debtors' balances are provided to ensure that adequate provision is made in the books.</p>	<p>Management agree with the recommendation. We will review all debtor balances to ensure adequate provision is made in the accounts.</p> <p>Improvements will be implemented part way through 2022/23 accounts, so the 2021/22 statements shows the same findings as in previous year.</p>

Your control environment and findings


Control deficiencies and areas for management focus (continued)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>During the audit it has been identified that whilst Democratic Services maintain a full register of interests, a separate Finance-run process had been in place to capture details for the related parties disclosure, which was incomplete. Whilst Members interests are captured and published, the existence of two processes mean that there is a risk that the related party disclosures is not complete.</p>	<p>2023 High Control activities</p> 	<p>It is recommended that the Finance team work with Democratic Services to complete a review of the process for register of interests along with the related party disclosure to confirm it is complete and accurate.</p> <p>In addition, it is recommended that the Audit Committee review the completed register of interests on an annual basis.</p>	<p>We agree with the recommendation.</p>

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Your control environment and findings

Control deficiencies and areas for management focus (continued)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>During the audit, we identified following instance of misclassified balances/transactions specified below:</p> <ul style="list-style-type: none"> - Debits balances in income: We noted that the underlisted expense GL accounts had been netted off against grant income and were thus misclassified in the financial statements. These total to £195k, which were netted off through a cost centre code 234: <p>We have discussed these with the management and management agreed to correct these in the statement of accounts.</p>	<p>2022 Medium Control activities</p> 	<p>Management should ensure that there is adequate review of workings supporting the financial records including a check if income and expenditure are appropriately classified, prior to reporting in the financial statements.</p>	<p>We agree with the recommendation. Improvements have been implemented as part of the 2022/23 statements and working papers.</p>

Your control environment and findings

Control deficiencies and areas for management focus (continued)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>We have noted a difference of £271k between the accumulated Absence Accrual balance(Account No:92809) presented in the draft financial statements and the provided supporting calculation.</p> <p>Management had reported a liability of £491k while the amount per the provided workings was £220k.</p> <p>We have discussed these with the management and management agreed to correct these in the statement of accounts.</p>	<p>2022 medium Control activities</p> <p></p>	<p>Management should ensure that there is adequate review of workings and that the balances reconcile to the underlying accounting records.</p>	<p>We agree with the recommendation. Improvements have been implemented as part of the 2022/23 statements and working papers.</p>

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Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.



Our opinion on the financial statements

Our opinion on the financial statements is expected to be unmodified.



Emphasis of matter and other matter paragraphs

There are no matters relevant to users' understanding of the audit that we consider, at this stage, necessary to communicate in emphasis of matter or other matter paragraph.



Value for Money reporting by exception

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Our work in this respect is still ongoing and conclusion will be communicated in a finalised ISA260 report.



Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

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

- 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.

The scope of our work

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

Use of this report

This report has been prepared for the 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.

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 Audit & Scrutiny 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, 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 work under the Code of Audit Practice in respect of Value for Money arrangements.

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

Please note some of the audit work is still undergoing and this report should be considered as interim ISA 260 report based on the status of audit to date. We will issue the updated version of this report, upon finalization of audit, which should be considered as final version.

Deloitte LLP

Bristol | 22 November 2023

Appendices



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Audit adjustments

Adjusted misstatements

The following corrected misstatements have been identified up to the date of this report which management agreed to adjust it in the statement of accounts.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m	Memorandum Debit/ (credit) General Fund £m	If applicable, control deficiency identified
Misstatements identified in current year						
Misclassification of expenditure	[1]	£196k/(£196k)				Page 18
Overprovision of accumulated leave balance	[1]	(£271k)	£271k			Page 19
Misstatements identified in prior years						
None						
Total		(£271k)	£271k			

[1] For detail, please refer to pages 18 & 19

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatement from prior year has been identified up to the date of this report requested in the prior year that you ask management to correct as required by ISAs (UK).

	Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m	Memorandum Debit/ (credit) General Fund £m	If applicable, control deficiency identified
Misstatements identified in prior years					
Provision on long outstanding debt	£63k	(£63k)			Page 16
Total	£63k	(£63k)			

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[1] For detail, please refer to page 16

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 our objectivity is not compromised.

Fees

The "scale fee" set by Public Sector Auditor Appointments Limited for the financial statement audit is £35,536, which is consistent with the prior year.

For the financial years 2020 and 2021, we have increased the minimum cost of the audit by adding a top-up fee to the scale fee. However, management has disputed the additional fee and the matter has been referred to the Public Sector Audit Appointments (PSAA) for resolution. We are currently awaiting communication from the PSAA regarding the outcome of the dispute.

For the financial year 2021/22, we have increased the audit fee to £65,513. The additional fee on the scale fee is due to additional work required to assess value for money (VFM), increased use of specialist expertise, and changes to the International Standards on Auditing (ISAs) 540, 315, and 420.

Furthermore, for the financial year 2021/22, we have to incur additional costs of £63,020 during October to December due to some challenges related to the timely receipt of accurate and complete information. This resulted in delays in our work as we had to spend additional time chasing up on the information, reviewing incomplete information, and raising queries to ensure that the information we were working with was reliable and accurate as explained in more detail on page 6. We have provided management with a breakdown of these costs.

No other non-audit fees have been charged by Deloitte in the period.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have not other relationships with the Council or Group, its councillors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Audit quality is at the heart of everything we do. We are committed to acting with the highest levels of integrity in the public interest to deliver confidence and trust in business.

In July 2023, the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2022/23 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

We value the observations raised by both the FRC AQR and Supervision teams, both in identifying areas for improvement and also the increasing focus on sharing good practice to drive further and continuous improvement.

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in the prior year relating to EQCR, Independence & Ethics and Group Audits, with none of these areas identified as key findings in this year’s engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching programme. Our EQCR transformation programme, which commenced in the second half of 2021, has served to further enhance the effectiveness of our EQCR process and led to improved evidence on our audit files demonstrating the EQCR challenge.

We welcome the breadth and depth of good practice points raised by the FRC, particularly in respect of effective group oversight and effective procedures for impairments, where we have made sustained efforts and investment to drive consistency and high-quality execution.

All the AQR public reports are available on the FRC's website:

[Audit Firm Specific Reports - Tier 1 audit firms | Financial Reporting Council \(frc.org.uk\)](#)

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

82% of audits inspected were found to require no more than limited improvements. None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

Inspection results: review of the firm's quality control procedures

"This year, our firm-wide work focused primarily on evaluating the firm's actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Improve the effectiveness of the testing of revenue and margin recognition

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- We are establishing a Revenue centre of excellence to support engagement teams in the audit of revenue. The involvement of the centre of excellence will focus on the overall approach to revenue testing, including an end-to-end view of revenue, the risk assessment, planned controls and IT and substantive work and will take place during the key stages of the risk assessment, planning and execution stages of an audit.
- Monthly workshops are held with partners and directors to brief them on the areas of regulatory focus. We also regularly communicate the FRC findings, including those on revenue and margin recognition, to the wider audit practice during the inspection cycle through our weekly technical email update to ensure that audit teams who might be affected by the findings are fully briefed.
- We held a review of a portfolio of audits in specific industries to evaluate the approach to margin recognition and to ensure teams are consulting with our technical team when required.
- We updated partner and EQCR/EQR review guidance and templates to ensure these reviews considers all revenue testing regardless of risk assessment.

- We have refreshed our internal controls coaching and introduced independent health check reviews on internal controls. Coaching is direct 1-2-1 support tailored to the specific needs of the engagement team. The health check reviews include work performed on controls that address significant, higher and lower risks; and entity level controls, including those relating to revenue.

How we addressed this area in our audit

- We have held a detailed discussion on revenue testing and have been provided with the latest practice aid and good practice examples.
- We have reviewed and implemented all updates to templates and guidance.
- Ensured that all audit team members watched the Firmwide Essential Professional Update shared monthly via internal compliance portal.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Improve the audit of cash equivalents and cash flow statements

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- We continue to hold monthly workshops and share weekly technical emails to brief our people on the areas of regulatory focus. These included a focus on auditing cash and cash equivalents.
- We have issued a 'Getting it right FAQs' in relation to cash equivalents testing, updated to include clarified guidance relating to money market funds and alternative procedures when external confirmations are not requested or received.
- Our Business Unit quality community leads led AQR hot topic reminders workshops and these covered cash findings ahead of reporting season to raise awareness of common pitfalls.
- We have refreshed our cash flow statement work programme and issued reminders requiring its use to all audit practitioners.
- We have assessed the training of audit delivery centres and performed additional training for junior team members in the context of common pitfalls. As part of this, a training module was updated to include a cash testing workpaper exercise as part of the core audit curriculum which will link to the regulatory findings.

How we addressed this area in our audit

- Considered specific updated work programmes or templates used this year.
- Considered the issues identified by us and corrected by the management in the previous year cashflow.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Improve the consistency of the audit of estimates for certain provisions

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- Our main annual technical training in 2022 included specific training in relation to the audit of complex estimates and provisions and includes scenario examples for auditing management estimates. Our Engagement Team Based Learning in 2022 (“TechEx Teams”) included a follow-on session focusing on accounting estimates on a community basis to facilitate sharing of practical examples relevant to community.
- Our annual training for 2023 also included a module on the experienced auditor mindset to support our people in ensuring that audit evidence captures the story of the audit process and challenge therein.
- We have issued new templates and support guidance to assist our teams in auditing complex models and evidencing our ‘standback’ assessment.
- We regularly communicate the FRC findings, including a focused communication on avoiding the ‘assumed knowledge’ pitfalls particularly in relation to management estimates, to the wider audit practice during the inspection cycle through our weekly technical email update to ensure that audit teams who might be affected by the findings are fully briefed.

- Management estimates were included within our ‘Key topics for FY23 audits’ publication in December 2022 providing key messages and links to supporting materials for all teams ahead of reporting season.

How we addressed this area in our audit

- We have used our guided risk assessment tools to aid us in assessing the risk, and to develop appropriate responses to the assessed risks, including our challenge of the key estimates.
- Ensured that all audit team members watched the Firmwide Essential Professional Update shared monthly via internal compliance portal.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Enhance the assessment of impairment reversals

To address this finding, we have done, or plan to do, the following:

- We plan to review our impairment specialist consultation policy to assess whether this should include reference to circumstances where an impairment reversal is identified.
- We have updated the impairment consultation memo to include a prompt on reversal of past impairments and ensure this is considered as part of the audit.
- We held briefings within the impairment specialist community on the AQR findings and the expectation that the specialists include impairment reversals in their review scope where a material reversal has taken place.
- Community Quality Leads are continuously briefed on key findings and reminders to ensure messages are disseminated to more junior grades through busy season including those relating to impairment reversals.
- We delivered a Bitesize learning on impairment reversals.
- We issued updated guidance to help company management understand some common questions on application of IAS 36, including impairment reversals.

How we addressed this area in our audit

- We have engaged the specialist to review the valuation work, which results in revaluation/impairment of the assets.
- Our specialist test the assumptions, methodology and inputs to check the accuracy and correctness of the valuation.

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

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

Required representations:

We have asked the Audit & Scrutiny Committee to confirm in the fraud discussion call and in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud / 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 Audit & Scrutiny Committee 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:

During our year end audit, we identified the risk of fraud in the recognition of capital expenditure and management override of controls as a significant audit risk. The audit work performed to date and any issues has been reflected in the previous slides of significant risks. During course of our audit, we have had discussions with management, those charged with governance and Internal Audit. In particular, we had meetings with Internal Audit and reviewed their reports to understand the findings from the Customer First investigation and to understand the implications of their limited or no assurance reports for the purpose of informing our risk assessment.

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

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

No significant concerns have been identified from our work to date, except as disclosed elsewhere in this letter.

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