Tandridge District Council

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

Issued on 22 November 2024 for the meeting on 05 December 2024

Contents

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 materially completed but remains ongoing as at the date of this report subject to following few open items: • completion of internal quality assurance procedures; and • receipt of signed management letter 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	We have completed our Value for Money work. Our Value for Money commentary is included in the accompanying Auditor's Annual Report. Based on our work, we have concluded there is a significant weakness in arrangements in respect of Governance: • Governance: how the body ensures that it makes informed decisions and properly manages its risks. In particular, the opinion of the Council's Head of Internal Audit is that only 'limited' assurance can be placed on the framework of governance, risk management and management of controls coupled with the control findings reported by us. These issues provide evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control. Whilst we acknowledge progress has been made, there is a continued significant weakness in governance arrangements during the year under audit. This is detailed on page 14 - 16 together with our recommendations.

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 which can cause us to modify our opinion, however, we have noted some misstatements and disclosure deficiencies which cumulatively does not exceed our materiality level and, therefore, does not affect our opinion. These deficiencies and misstatements are reported under audit adjustment appendix on page 49 to 52. • In summary, we are expecting to issue the unqualified opinion in respect of the statement of accounts and in respect of value for money (VFM) we are expecting to issue opinion with identified significant weakness, refer the detail in VFM section under this report.
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. • We have made recommendations for some changes to the narrative statement and annual governance statement which are updated by the management.
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 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?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

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.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.

Whistle blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

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 page 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.

Area	Grading	Further detail
Adherence to deliverables timetable	!	There have been challenges throughout the audit in this regard which have caused delays in the finalisation of the audit. Management have been competent and engaged however we have experienced delays in receipt of responses to some audit requests throughout the audit period. We have checked the Connect in relation to the timeliness of information. The average overdue days reflected by the Connect is 18 (improved from 46 last year), which shows that it took on average 23 days (5 days agreed for each request to be provided) to get to the requested information. We note that more recently, management have significantly improved the timeliness of their responses to these requests. We have scheduled biweekly calls between our team and the council throughout the audit and increased these to daily over the last few months to drive completion, which has ensured that audit requests are being discussed on a timely basis to ensure any issues are resolved on a timely basis.
Access to finance team and other key personnel		We are communicating regularly with the finance team.

! Lagging ! Developing Mature

Quality indicators (continued)

Area	Grading	Further detail
Quality of draft financial statements	!	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 AGS, which are updated by the management. During our review, we identified inconsistencies in the application of financial statement adjustments. Specifically, changes proposed and adjusted in previous years' accounts were not consistently reflected in the current year's financial statements, particularly within the cash flow statement and financial instrument notes. Additionally, we observed that the final set of financial statements did not consistently incorporate all agreed-upon adjustments. Though, these matters have been addressed, and the necessary updates have been implemented according to our recommendations.
Response to control deficiencies identified	!	We noted that management has challenged us and after discussion, agreed with communicated control deficiencies. Based on the discussion, management will work to improve their control environment based on our recommendation going forward.
Volume and magnitude of identified errors	!	Although we have noted delays in information flow and a few inaccuracies in information, mainly due to change of management staff, we have not noted cumulatively material misstatements which can cause us to modify the opinion. All errors noted, which cumulatively are below our materiality threshold are reported in audit adjustment appendix to this report on page 49 to 52.
Timing of key accounting judgements	!	The initial IAS 19 report lacked the triennial valuation. We flagged this to management, who then provided a revised report several weeks later. Regarding the property valuation data, we noted that management does not maintain all information in TDC. This made it challenging to locate and compile the necessary information for our audit procedures, as it required additional time and effort. We have documented these findings in the control environment section of our report.

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Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment

We identified the key change in your operations are increase in capital expenditure and articulated how these impacted our audit approach.

Scoping

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

Other findings

As well as our conclusions on the significant risks and our Value for Money work, 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 included on pages 17 – 44.

Determine materiality

The materiality calculation reflecting final figures resulted in a materiality of £1.22m, group performance materiality of £0.85m and a clearly trivial threshold for reporting misstatements to you of £61k. These figures are slightly higher, and based on the updated numbers, with those reported to you at the planning stage.

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 have updated our understanding of the risk of property asset and the risk of capital expenditure and have redefined these risks accordingly. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit & Scrutiny Committee's attention our conclusions on the significant audit risks. The Audit Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

we are expecting to issue the unqualified opinion in respect of the statement of accounts and in respect of value for money (VFM) we are expecting to issue opinion with identified significant weaknesses.

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	✓	✗	DI	*Not satisfactory	⚠	10
Recognition of capital expenditure	✓	✓	DI	*Not satisfactory	⚠	11
Management override of controls	✓	✓	DI	*Not satisfactory	⚠	12
Area of Audit Focus						
Pension liability valuation	✓	✗	✗	Satisfactory	⚠	13

Controls approach adopted

DI Assess design & implementation

* The conclusion is in respect of testing of design and implementation of controls only which is further explained on page 17.

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	We have performed the following procedures: • Reviewed the design and implementation of the controls in place in relation to property valuations; • Considered 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; • Engaged 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 tested key asset information used by the Council’s valuers in performing their valuation, such as gross internal areas, back to supporting documentation; • Reviewed 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; • Reviewed 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; • Tested a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts. • Reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.
Conclusion	We have concluded on the work and, based on the procedures performed, we are satisfied that valuation of property assets are not materially misstated. However, we have noted some errors and control recommendation, which are explained in the control environment (page 17 - 44) and audit adjustment (page 49–52) sections.

Significant audit risks and areas of audit focus (continued)

Recognition of capital expenditure

Risk identified	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. The Council's capital expenditure in 2021/22 was £14.98m (2020/21 £10.19m). 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.
Deloitte response and challenge	We have performed the following procedures: • Obtained an understanding of and test the design and implementation of the key controls in place in relation to the determination of capitalisation expenditure; • Performed 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, identified journals of increase audit interest within capital expenditure.
Conclusion	We have concluded on the work and, based on the procedures performed, we are satisfied that capital expenditures are not materially misstated. However, we have noted some errors and control recommendation, which are explained in the control environment (page 17 - 44) and audit adjustment (page 49 – 52) sections.

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 performed the following audit procedures that directly address this risk: • Tested the design and implementation of key controls in place around journal entries and management estimates; • Assessed 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; • Tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting; • Reviewed accounting estimates for biases that could result in material misstatements due to fraud in line with ISA 540 requirements; and, • Obtained 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 concluded on the work and, based on the procedures performed, we did not identify any instances where management override the controls and are satisfied that statement of accounts not materially misstated. However, we have noted some errors and control recommendation, which are explained in the control environment (page 17-44) and audit adjustment (page 49–52) sections.

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	We have performed following procedures: • Obtained 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. • Reviewed the disclosures made in the Statement of Accounts against the requirements of the Code. • Sought assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. • Assessed the independence and expertise of the actuary supporting the basis of reliance upon their work. • Reviewed and challenge the assumptions made by Hymans Robertson with the support of our internal pension specialists. • Assessed the reasonableness of the Council’s share of the total assets of the scheme with the Pension Fund financial statements. • Carried 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. • Liaised with the scheme auditor on the results of their audit procedures on the scheme as a whole. • Considered 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. • Scoped our work, including the nature and extent of our actuarial specialists involvement, in a way which responded to this detailed risk assessment.
Conclusion	We have concluded on the work and, based on the procedures performed, we are satisfied that pension liability is not materially misstated. However, we have noted some errors and control recommendation, which are explained in the control environment (page 17 - 44) and audit adjustment (page 49 – 52) sections.

Value for money

Our work is complete and reported in our Auditor’s Annual Report

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 2024 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 two reporting criteria (financial sustainability and governance, with improving economy, efficiency and effectiveness not a required criterion for audits up to 31 March 2023).
- Perform 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, 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 report.

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 completed our Value for Money work. Our Value for Money commentary is included in the accompanying Auditor’s Annual Report.

Based on our work, we have concluded there is a significant weakness in arrangements in respect of Governance. Our financial statement audit opinion will refer to the continued significant weakness in arrangements in respect of the Governance.

Value for money
Qualified audit conclusion

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow-up interviews on areas where additional information was required.

In addition, we have:

- reviewed of the Council's draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work;
- considered the Council's financial performance and management throughout 2021/22; and

We have also considered the impact of Covid-19 on the governance and control processes in place at the council and the processes and controls put in place in order to deal with the Covid-19 business support schemes.

Findings of our work

Based on our work, we have concluded there is a significant weakness in arrangements in respect of Governance which is detailed on next page together with our recommendations.

Our financial statement audit opinion will refer to the significant weakness in arrangements including noting the continued weaknesses in respect of Governance which we qualified our opinion in respect of in 2019/20 under the previous Value for Money reporting arrangements.

Our opinion will state that in 2021/22 the Internal Auditor's identified that the framework of governance, risk management, and control required strengthening, resulting in a limited assurance opinion which is consist with 2020/21. It was noted that, while a risk management framework exists, its implementation is inconsistent. In addition, the external audit identified control deficiencies across various areas.

Value for money
Significant weakness in arrangements

Nature of the significant weakness identified	We have identified a significant weakness in arrangements in respect of governance (how the Council ensures that it makes informed decisions and properly manages its risks), specifically in 2021/22 the Internal Auditor’s identified that the framework of governance, risk management, and control required strengthening, resulting in a limited assurance opinion which is consist with 2020/21. It was noted that, while a risk management framework exists, its implementation is inconsistent. In addition, the external audit identified control deficiencies across various areas.
Evidence on which our judgement is based	Discussion with management, our audit procedures and findings notes and review of internal auditor annual opinion and recommendations.
Impact on the Council	The repeated "Limited" assurance opinions for two consecutive fiscal years (2020/21-2021/22) signal deeply rooted systemic issues within Tandridge District Council's governance, risk management, and control frameworks, exposing the Council to risks such as financial mismanagement, reputational damage, operational disruption, and failure to achieve strategic objectives.
Recommendation	It is recommended that management implement the agreed responses to internal and external audit findings and report the progress to those charged with governance.

Your control environment and findings

Control deficiencies and areas for management focus

(Reported previously and updated in this report)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Internal controls 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: • Review of revaluation reports • Review of capital projects prior to approval • Review of the revaluation adjustment journals • Review of transfers from assets under construction • Year-end review of investments • Year-end review of accruals listing and post year-end cutoff • Review of purchase orders • Year-end review of grants received • Review of payroll month-end reconciliation • Review of service organisations' periodic investment reports • Separate reviews of journals by an individual different from the preparer • Review of significant accounting estimates • Review of monthly control accounts reconciliation. • Review of information provided to the actuary, including Management's challenges of assumptions used in the liability calculation; and • Review of the pension journals posted to the system 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.	2021 Medium Control activities !	We recommend that management should devise a protocol to ensure the evidence of review controls is retained, even if personnel changes occur.	Management agree that evidence of control reviews should be documented more thoroughly in future.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 22nd of Nov 2023)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Limitation of Finance team 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. We have noted that the persistence of this issue in this 2021/22 audit.	2021 High Control activities !	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.	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. 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.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 22nd of Nov 2023)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Long outstanding debtors 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. 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.	2021 Medium Control activities !	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. 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.	Management agrees with the recommendation. We will review all debtor balances to ensure adequate provision is made in the accounts. Improvements will be implemented part way through 2022/23 accounts, so the 2021/22 statements show the same findings as in previous year.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 22nd of Nov 2023)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Completeness of related parties 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 party 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.	2022 High Control activities !	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. In addition, it is recommended that the Audit Committee review the completed register of interests on an annual basis.	We agree with the recommendation and have agreed a revised approach with Democratic Services.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously and updated in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Misclassification During the audit, we identified the following instances of misclassified balances/transactions specified below: - 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 £196k, which were netted off through a cost centre code 234: - Vendor accounts with a net debit balance: We noted that vendor accounts with debit balance are included in the creditors amounting £491k. - Debit balance in deferred income: We noted a debit amount of £70k had been recorded as a deferred income. - Incorrect classification of grants received income code in expenditure amounting £3.16m We have discussed these with the management and management agreed to correct these in the statement of accounts.	2022 Medium Control activities !	Management should ensure that there is adequate review of workings supporting the financial records including a check if income and expenditure and debtors and creditors are appropriately classified, prior to reporting in the financial statements.	We agree with the recommendation. Improvements have been implemented as part of the 2022/23 statements and working papers.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 22nd of Nov 2023)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Accumulated absence accrual difference 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. Management had reported a liability of £491k while the amount per the provided workings was £220k. We have discussed these with the management and management agreed to correct these in the statement of accounts.	2022 Medium Control activities !	Management should ensure that there is adequate review of workings and that the balances reconcile to the underlying accounting records.	We agree with the recommendation. Improvements have been implemented as part of the 2022/23 statements and working papers.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously and updated in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
General Fund Assets (GF) and Housing Revenue Account (HRA) assets not revalued The Council's policy is to revalue the entire assets in its GF and HRA portfolio except for assets currently in their first year of use. However, we noted that some of these assets were omitted in valuation workings, though, they were eligible for revaluation under the policy. We have consulted with Deloitte Real Estate, where they suggested to use the Beacon value methodology and market review recommendation to assess the impact of revaluation for the assets not valued. This involves applying the value of the beacon value/archetype where these assets were categorised for HRA and apply the recommended movements as per market review report for GF. Following the suggested approach, we have noted a net valuation uplift of £55,583, which is not below our minimum threshold and hence we have included this as part of uncorrected misstatements.	2022 Medium Control activities !	We recommend management to compare their FAR register against the information being sent to valuer to ensure the accuracy and completeness of the asset valued.	Agreed and noted for future actions.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Fully utilized assets During the year, we noted that TDC has included intangible assets amounting £1.47m and property, plant, and equipment amounting to £5.1m in the cost and accumulated depreciation/amortization, despite these assets being fully utilized at the beginning and end of the year. It is essential to have a robust control procedure in place to ensure that assets that are no longer in use are promptly identified and written off from the books	2022 Medium Control activities !	We recommend that TDC management should thoroughly review the inclusion of fully utilized intangible assets and property, plant, and equipment in the cost and accumulated depreciation/amortization. It is essential to ensure that only assets with ongoing utilization are included in the financial statements. We further recommend implementing robust controls and procedures to regularly assess and validate the usage of these assets. Additionally, management should establish a process for maintaining proper documentation to support the continued utilization of these assets.	Management have reviewed the inclusion of fully utilised assets. Management proposes to introduce a policy to remove intangible assets and property, plant and equipment when they are fully amortized/depreciat ed.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Pension assets misstatement The auditors of the pension scheme (Surrey County Pension) of whom the TDC is part, have identified an understatement in the pension assets of £28 million due to timing differences. We have estimated the impact of this on the TDC's pension liability using the share of its assets within the entire fund's assets. While performing the audit procedures on the pension liabilities/assets, we noted that there was a reported error in level 3 investments of the Property Unit Trust and the Private Equity assets valuation of the Surrey Pension Funds amounting to £28m. We have estimated the impact of this on the TDC's pension liability using the share of its assets within the entire fund's assets, which calculated as £471k. Tandridge District Council’s management considered this an estimation difference and has therefore, not adjusted the council accounts.	2022 Medium Control activities !	We recommend that management should devise a mechanism which would enable TDC management to track any unadjusted misstatements reported by the pension fund’s auditor. This will enable management to evaluate unadjusted misstatements and determine whether the Council's financial statements need to be adjusted.	There is a mechanism to be able to track changes in the Pension Fund. The item in question is not a correction of an error. It was not deemed by the Pension Fund to be an error. Therefore, no adjustment was required, and no adjustment was made in the Pension Fund Accounts. These are private market investments which are not traded in the same way as quoted or pooled instruments. The valuation of these therefore takes some time to generate. Any adjustments are down to additional information obtained after the passage of time (sometimes several months) to the time of the audit. The IAS19/FRS102 accounting estimates would have been produced with the best available information at the time and therefore stand.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<u>Bank reconciliation process</u> During bank reconciliation testing, we had inspected the bank reconciliation for one of the HSBC accounts and noted a formula error which resulted in difference in reconciliation. Upon further investigation with TDC management, it was determined that the workings needed to be revised based on new approach adopted by management in respect of the reconciliation.	2022 Medium Control activities !	We recommend that management devise a mechanism whereby management ensure the accuracy and completeness of the reconciling items and agreeing the reconciliation back to the GL and bank statement.	Management have devised a mechanism to ensure the accuracy and completeness of the reconciling items and agreeing the reconciliation back to the GL and bank statement. This reconciliation is included within the 2022/23 statements.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Other long term investments recoverability Based on our investment testing, we identified a listing of receivables amounting to £113k, representing housing repair loans given to tenants by TDC. According to management, these amounts are repayable once the houses are sold. However, despite our efforts to obtain supporting audit evidence, management was unable to provide any documentation to support the recoverability of these receivables. Management do not consider these to be material and have not corrected these in the statement of accounts. Therefore, we have included in this in the schedule of uncorrected misstatement.	2022 Medium Control activities !	We recommend that management undertake a thorough review of the housing repair loans and establish a process to obtain and maintain appropriate documentation to support the recoverability of these receivables.	Management have reviewed the Housing repair loans and the receivables have been reconciled to loans during 2022/23.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Creditors to be written back Based on our testing, we have identified several creditor account codes that have not shown any movement over 3 years. Upon inquiry, the client has informed us that no supporting documentation could be found for these creditors. Furthermore, management intends to write back these balances in the next year, indicating that they do not represent a liability. The total amount of these balances is £114,654. Management do not consider these to be material and have not corrected these in the statement of accounts. Therefore, we have included in this in the schedule of uncorrected misstatement.	2022 Medium Control activities !	Implementing controls to regularly review and reconcile creditor accounts will help prevent the accumulation of unsupported balances in the future	Agreed and noted for future.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<u>AUC cost estimation error</u> During our testing of property, plant, and equipment (PPE) and assets under construction (AUC), we selected a sample related to the Bronzeoak project. The amount recorded in TDC's books for this sample was approximately £107k which was based on an estimate provided by the service department. However, the actual payment made in the 22-23 was £246k. We noted a difference of approximately £139k which is then projected to whole population and the total projected error amounted to £199k. Management do not consider these to be material and have not corrected these in the statement of accounts. Therefore, we have included in this in the schedule of uncorrected misstatement.	2022 Medium Control activities !	We recommend that management reviews the accrual process and ensures that accurate estimates are used to avoid significant differences between the accruals and actual payments.	Estimates are an approximate calculation or judgement at a particular point in time based on information available. Management always reviews the accrual processes to ensure that estimates are as accurate as possible.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<u>Errors noted in account receivable testing</u> During the testing of the account receivable, we noted errors in 4 of the samples. The total error was £11.6k out of the sampled amount of £455k. We are required by auditing standards to project the error on the whole population from where the samples were taken. The total population was £4.68m and projected error was £119k.	2022 Medium Control activities !	We recommend that management conducts a thorough review of the accounts receivable process, including the identification and rectification of any errors found. Implementing controls to prevent similar errors in the future will help maintain the integrity of the accounts receivable balances.	Management always reviews the account receivable process to ensure accounts receivable balances within the statements are robust.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
In respect of revaluation testing, we have involved our experts to carry out the valuation testing including accuracy of assumptions, methodology and valuation. While they have not identified any material misstatement in the valuations, they have noted few instances of process improvements, the details of which are already shared with management and summary is included here: <u>Valuation Report Improvements:</u> 1. Include all terms of engagement in the final report. 2. Address discrepancies between the valuer report and the work performed. 3. Require confirmation in the Valuation Report regarding the relationship between Market Value and Current Value for operational assets. 4. In the valuation report, reference the history of renewals and voids, as well as letting patterns for similar properties in the area. 5. Recommend keeping documentary records of discussions between the Council and the external valuer. 6. Request the valuer to identify specific risks associated with assets that may have a wider margin of reasonable judgment. 7. Ensure clear identification of schedules summarizing reported values for valued assets in future reports. <u>Valuation Process Improvements:</u> 1. Challenge the validity of an approach that generally applies to physical deterioration and obsolescence. 2. Ensure valuations include commentary on material differences between Existing Use Value (EUV) and Market Value (MV) as required. 3. Challenge the application of a uniform remaining useful life to all assets and components. 4. Encourage valuers to consider leasing and sales transactions for comparable assets within the locality, rather than relying solely on external indices.	2022 Medium Control activities !	We recommend that management should review these findings and discuss it with valuer to implement these recommendations	Management will engage with our external valuation experts to implement these recommendation where appropriate

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Gryllus impairment During our investment testing, we identified that the investments in Gryllus Holdings Limited (GHL), a subsidiary, had not been impaired to the net asset value of GHL as of 31 March 2022, as stated in the audited financial statements. We noted a difference of £3.97m between the recorded value and the net asset value. Upon discussing this finding with management, they acknowledged the error and agreed to correct it in the statement of accounts.	2022 Medium Control activities !	We recommend that management should devise a mechanism to periodically review impairment of its assets and ensure all relevant assets are part of this activity.	Management do review impairment of its assets at year end. Management will ensure all assets are included in these reviews.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Valuation differences due to methodology We have identified the following differences, which have been noted through our expert review of the valuation report: **a)** Leisure Pool & Car Park, Oxted: The Valuer adopted 15% of the Gross Replacement Cost (GRC) and fees to calculate the external works, instead of adopting a percentage of the GRC and then calculating the fees based on the total of the GRC and external works. This resulted in an incorrect calculation, with £50,009 representing 1% of the gross value of the property. **b)** Astlefield House, 1 – 5 Castlefield Road, Reigate. RH2 0SA: In the valuation notes, it is stated that the next rent review is due on 25 March 2024, which is 2.25 years after the valuation date. The passing rent of £822,325 p.a. was capitalized for 3 years before an increased reversionary rent of £847,000 p.a. was reflected. This resulted in a difference of £20k if the reversionary rent was applied. Management do not consider these to be material and have not corrected these in the statement of accounts. Therefore, we have included in this in the schedule of uncorrected misstatement.	2022 Medium Control activities !	We recommend that management should discuss these with valuer to consider these in future valuations.	Management reviews the valuations received and WHE provide explanations for movements. We rely on our external valuers to provide expert advice and valuations.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our reports and update in this report)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Investment classification error During our review, we identified that certain investment funds were incorrectly classified as short-term investments, when they should have been classified as long-term investments for the UBS and Schroders funds, or as cash and cash equivalents for the CCLA PSDF. Upon inquiry with Treasury and reviewing email correspondence between Treasury and TDC's financial advisors, it became evident that the intention of these investments contradicted their short-term classification. This incorrect classification also applied to the prior year. We consulted with our specialist team to understand if restatement is needed. Based on the consultation, we concur with management, as this is just and reclassification adjustment and not affecting any material KPIs or usable reserve., that no prior year restatement needed. In respect of current year, management agreed to amend the statement of accounts to reflect those funds in the correct classification.	2022 Medium Control activities !	We recommend that management should devise a mechanism where finance coordinate with treasury annual to understand the expected usage of the funds in future and intention to hold or withdraw these funds which enable them to properly classify these funds in statement of accounts.	Management will continue to work with our Treasury team to ensure all funds are properly classified.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Overstatement of receipt in advance During our review, we discovered that certain advances were received after the year-end, despite being recorded as receipts in advance. Upon discussing this with management, it was revealed that some advances were mistakenly recorded based on invoices rather than actual receipt of payment. We asked management to investigate further, and they have identified a total of £411k in such instances. Management has agreed to rectify this error in the statement of accounts.	2022 Medium Control activities !	We recommend that management should devise a mechanism where management review the recorded receipt in advance with the actual receipts to ensure the accuracy of reporting.	Management will review Receipts in Advance balances to ensure adequate provision is made in the accounts. This is a Balance Sheet disclosure error.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Write-off of investment property cost During our review, it was identified that the initial capitalised costs amounting £153k for the proposed purchase of the Hobbs Industrial Estate, an investment property, have not been appropriately written off despite the Council's decision to no longer pursue this purchase. Management do not consider these to be material and have not corrected these in the statement of accounts. Therefore, we have included in this in the schedule of uncorrected misstatement.	2022 Medium Control activities !	We recommend that management should devise a mechanism where management periodically review the recorded cost against the projects and assess if any adjustments are needed.	As part of a review management became aware of this adjustment and this is reflected in the 2022/23 statements

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Journals posted with incomplete descriptions / line details During our testing of journal entries, we discovered 297 entries with inadequate or unclear wording regarding their purpose. Out of these, 215 entries had no descriptions at all, while the remaining entries were described using alphanumeric references that lacked clear context for understanding the underlying transactions. We have discussed this issue with management and obtained supporting evidence to verify the rationale behind few material journals. No issues noted for those tested. This finding raises the risk of multiple journal entries being recorded for the same transactions if entries are not properly and clearly described. Furthermore, the presence of unclear descriptions increases the risk of inappropriate or unapproved transactions being masked, potentially heightening the risk of fraud.	2022 Medium Control activities !	It is important to address this issue by implementing controls to ensure that journal entries are accurately and clearly described, providing transparency and reducing the risk of errors or fraudulent activities.	It was recognised during the 2020/21 audit that improvements would be implemented during 2022/23 and 2021/22 would record the same finding. Improvements continue to be implemented for both 2022/23 and 23/24 financial years

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Reported previously in our report issued on 3rd April 2024)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Error in HRA Debtor balance During our review, we discovered an error in the HRA debtor balance amounting to £316,770. The amount recorded in the general ledger (GL) was £369,836, which differed from the working provided for HRA debtors of £686,606. After discussing this issue with management, it was confirmed that the correct balance for HRA debtors is indeed £686,606. However, management has determined that this discrepancy is not material and has chosen not to correct it in the statement of accounts for FY21/22. As a result, we have included this uncorrected misstatement in the schedule of uncorrected misstatements.	2022 Medium Control activities !	We recommend that management should devise a mechanism where management the balance used to compute the provision is reflective of the relevant GLs.	As part of a review management became aware of this adjustment and this is reflected in the 2022/23 statements, as such the HRA debtors report and the GL reconcile in 2022/23.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Not included in previous reports, new to this report)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Cut-off error on Housing Benefits We have identified instances where housing benefit payments straddling 2020/21 and 2022/23 financial years have not been appropriately apportioned. We have therefore noted a net factual error of £281.04 (being the difference between the opening and closing cut-off errors respectively of £412.47 and £131.42 respectively). The error extrapolated over the tested population is £140K. We understand that management recognises these as expenses in the period they are paid. This is done in line with the Department of Works and Pensions (DWP) guidance, which states that these benefits are reclaimable from the Central Government in the year that they are paid.	2022 Medium Control activities !	We note from our review of the DWP guidance that it does not explicitly state that the Councils should account for these benefits on a cash basis. Therefore, we recommend that management accrue for these benefits over the period that they are due.	Management do not believe that it is necessary to make this adjustment as it would then not match the annual return, we complete back to DWP which is based on a cash basis.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Not included in previous reports, new to this report)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Overstatement of pension liability Following the triennial valuation of the pension fund, the Council was required to re-assess its liability. An initial actuarial report, issued prior to the triennial valuation, showed a net liability of £51,845k. A subsequent updated actuarial report, prepared after the triennial valuation, indicated a revised net liability of £51,723k. While management has indicated that the financial statements of the subsequent year would reflect the updated actuarial position, they have not updated the position in the current year. Consequently, we have identified an uncorrected misstatement of £122,000, representing the difference between the liability reported in the financial statements and the liability per the updated actuarial report.	2022 Medium Control activities !	We recommended that, when practicable, management should make all necessary changes/corrections to the financial statements	We do not agree with this recommendation, we would change if it was material enough to warrant it.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Not included in previous reports, new to this report)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
Clarity of activities to support capitalisation of salaries From our testing of capital expenses, we have noted that some salary/payroll costs for staff involved in capital programmes are capitalised. The basis of capitalisation of these costs is determined at the beginning of the year by the budget managers, who determine the amount of time that the appropriate staff would spend on these capital programmes. We inquired with management, how the activities of these staff are monitored throughout to the year to ensure that actual time charged is reflective of actual activities carried out in support of these programmes. As the TDC does not make use of timesheets, monitoring is done in form of conversations during outturn meetings. We have not seen any evidence documenting these meetings.	2022 Medium Control activities !	Management should ensure that that budget preparation include details of activities being performed by these individual. Additionally, there budget monitoring should include documentation of achievement/work-done to meet these activities.	Management has accepted this recommendation.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Not included in previous reports, new to this report)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<u>Impact of the Goodwin case on pension valuation</u> We note that Tandridge District Council is aware of the Goodwin case but has not allowed for any additional costs as a result of the ruling for the year ending 31 March 2022. Also, an allowance was not made for the year ending 31 March 2021 and 2022 on the basis of minutes from the LGPS advisory board that the government is not conceding the Goodwin case. For a typical LGPS employer, we understand that the estimated Goodwin impact could be between 0.1% and 0.2% of the Defined Benefits Obligation DBO (i.e. up to £300k). This amount is greater than our clearly trivial threshold.	2021 Medium Control activities !	We recommend management ensure all the necessary provisions are made based on the latest information available and they should challenge the pension report to ensure its reasonableness.	We do not agree and stand by our approach.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Not included in previous reports, new to this report)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<u>Issues noted from testing provision for doubtful debt</u> As part of our testing, we requested for: i) a detailed aged report for the academy debtors balance of £1.2m Management was unable to provide a detailed aged report that forms the basis for computation of the provision of allowance for doubtful debt. The provision was computed using a report that was extracted from the financial system (Agresso). However, we would have expected that management maintain a report on an invoice level. ii) An analysis supporting management's estimation of the provision. However, the management could not provide these analysis and reports. We have performed the alternative analytical procedures to obtain the assurance over these balances.	2022 Medium Control activities !	We recommend that management should i) maintain a detailed report such that outstanding balances can be matched against individual debtors (and invoices). ii) ensure that all estimates are supported by adequate analyses (and calculations).	Management has accepted this recommendation.

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(Not included in previous reports, new to this report)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<u>Overstatement of management charges for Quadrant House</u> From our testing of expenditure, we identified an instance whereby management charges relating to the Council owned investment property (Quadrant House) for prior periods were reported in the current year. The total amount was £172k. Management has not deemed this material and not corrected this in the financial statements. We have therefore included this in the schedule of uncorrected misstatement.	2022 Medium Control activities !	While we acknowledge that management received these invoices during the year, we recommend that they strengthen their expense accrual process. This will help ensure that expenses are recognised in the correct financial period to which they relate.	We have now rectified this and therefore management has accepted this recommendation.

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 unqualified.

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 complete and we are expecting to issue opinion with identified significant weaknesses.

Conclusions and commentary are included in accompanying Auditor’s Annual 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.

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 have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Our preliminary review identified a number of areas where the Narrative Reports needed revising in order to comply with guidance and to ensure that they were fair, balanced and understandable. We requested that management update the narrative report prior to approval of the financial statements which they have done. Together with management, we are finalising the outstanding matters on the draft accounts. We are not expecting any material unresolved issues at the time of signing.
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. Management reviewed the amendments required to the AGS to ensure it is consistent with our understanding of the Council, particularly in relation to the significant weaknesses noted in previous year, which are updated by the management.

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.

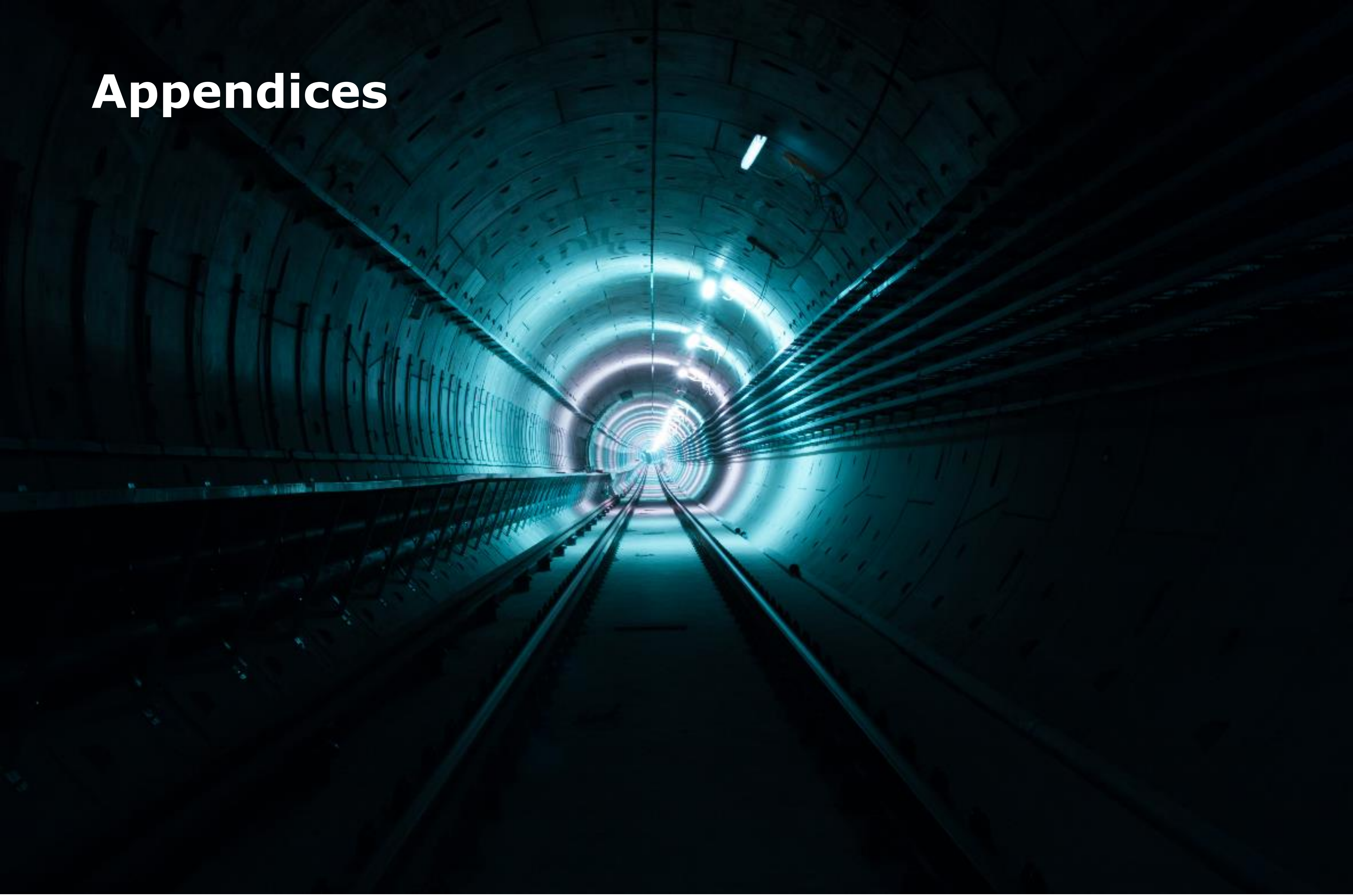
Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

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

Deloitte LLP

Bristol | 22 November 2024

Appendices



Audit adjustments

Adjusted misstatements

(Reported previously and updated in this report)

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. These misstatements are TDC only and management should assess the impact on the group and reflect it.

	Debit/ (credit) income statement £000	Debit/ (credit) in net assets £000	Debit/ (credit) OCI/Equity £000	If applicable, control deficiency identified
Misstatements identified in current year				
Misclassification of expenditure	£196/(£196)	-	-	Page 21
Vendor accounts with net debit balance	-	£491/(£491)	-	Page 21
Grant income classification	£3,160/(£3,160)	-	-	Page 21
Incorrectly classified debtors	-	£70/(£70)	-	Page 21
Overprovision of accumulated leave balance	(£271)	£271	-	Page 22
Impairment of Gryllus investments (standalone accounts)	£3,970	(£3,970)	-	Page 32
Correcting classification of investments	-	£9,415/(£9,415)	-	Page 34
Overstatement of receipt in advance	-	£411/(£411)	-	Page 35
Misstatements identified in prior years				
None noted	-	-	-	-
Total	**£3,699**	**(£3,699)**		

Audit adjustments

Adjusted Disclosures

The following corrected disclosure have been identified up to the date of this report which management agreed to adjust it in the statement of accounts. These disclosure are TDC only and management should assess the impact on the group and reflect it.

As part of review of financial statements, we noted the following disclosure which is required by the Code, was not initially disclosed by the Council:

HRA vacant possession disclosures as mentioned in the Code paragraph in 3.5.5.1;
(Including an explanation that the vacant possession value and balance sheet value of dwellings within the HRA show the economic cost of providing council housing at less than market rents)

Management has now included the above disclosure in the updated financial statements

Audit adjustments

Unadjusted misstatements

(Reported previously and updated in this report)

The following unadjusted misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). These misstatements are TDC only and management should assess the impact on the group and reflect it.

	Debit/ (credit) income statement £000	Debit/ (credit) in net assets £000	Debit/ (credit) OCI/Equity £000	*Memorandum Debit/ (credit) General Fund £000*	If applicable, control deficiency identified
Misstatements identified in current year					
Provision on long outstanding debt	63	(£63)	-		Page 19
Understatement of pension assets	-	471	(471)		Page 25
Non-recoverable long-term investments	113	(113)	-		Page 27
Overstatement of the creditors	(114)	£114	-		Page 28
Understatement of AUC accrual	199	(199)	-		Page 29
Projected error in account receivables	119	(119)	-		Page 30
Valuation methodology differences	-	70	(70)		Page 33
Write-off of investment property	153	(153)	-		Page 36
Error in HRA debtor balance	(317)	£317			Page 38
Overstatement of pension liability		122	(122)		Page 40
Impact of Goodwin case		(300)	300		Page 42
Cut-off error on housing benefits	(140)		140		Page 39
Misstatements identified in prior years					
Correcting classification of investments		£9,686/ (£9,686)	-		Page 34
Overstatement of charges for Quadrant House	(172)	47	125		Page 44
Total	**(96)**	**194**	**(98)**		

Audit adjustments

Unadjusted Disclosures

The following unadjusted disclosures have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). These disclosures are TDC only and management should assess the impact on the group and reflect it.

Disclosure

We noted the following disclosure were missing which are required by the Code, however, not disclosed by the Council:

- Defined benefit obligation disclosures related to maturity profile of the obligation and maturity analysis of benefit payments as mentioned in Code paragraph in 6.4.3.45;
- Description of the aggregation of operating segments as mentioned in Code paragraph in 3.4.2.98;
- Age analysis of assets that are past due but not impaired (as at the reporting date) and analysis of assets individually determined to be impaired (at the reporting date), and the factors the authority considered in determining they are impaired as mentioned in Code paragraph in 5.2.4.2;
- The Authority's current disclosures do not provide sufficient information to assess its credit risk management practices and their connection to the recognition and measurement of credit losses. Specifically, the disclosures lack clarity on the determination of significant credit risk increases since initial recognition, including the application of low credit risk classifications and rebuttal of presumptions for overdue assets. Additionally, the disclosures do not adequately address the definitions of default, grouping of instruments for collective loss measurement, or the process for identifying credit-impaired financial assets. as mentioned in Code paragraph in 7.3.3.11;
- The Authority's disclosures lack transparency regarding the inputs, assumptions, and estimation techniques used to apply impairment requirements for financial instruments. Specifically, the disclosures do not adequately explain the methodologies for measuring expected credit losses (both 12-month and lifetime), assessing significant credit risk increases since initial recognition, identifying credit-impaired financial assets, or incorporating forward-looking information, including macroeconomic factors as mentioned in Code paragraph in 7.3.3.12;
- The Authority's disclosures do not include a sensitivity analysis demonstrating the potential impact of reasonably possible changes in interest rate risk on the surplus or deficit on the provision of services and other comprehensive income and expenditure. Furthermore, the disclosures do not describe the methods and assumptions employed in preparing such a sensitivity analysis, as required for transparency and to avoid obscuring material information as mentioned in Code paragraph in 7.3.3.22.

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 2019/20 and 2020/21, 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 was referred to the Public Sector Audit Appointments (PSAA) for resolution. PSAA had a discussion with both parties along with various evidences provided and concluded that additional amount to paid by TDC is £108,585 in respect of financial year 2019/20 and £130,848 in respect of financial year 2020/21. For the financial year 2021/22, we have incurred additional costs of £266,404 due to challenges related to the timely receipt of accurate and complete information and the number of misstatements and control deficiencies identified increasing the level of scrutiny required in the audit. This resulted in delays in our work as we spent 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 and 7. We will raise these with PSAA and in line with previous year approach, we would apply a 30% reduction, which would bring this to £186,483. The VFM assessment, spanning the three years (FY20/21, FY21/22 and FY22,23), is projected to cost an additional £19,031. This figure encompasses the resources and expertise required to conduct a comprehensive evaluation of value for money. It should be noted that £7,844 has been included in the FY20 fee variation agreed by PSAA in relation to the SWs noted and reported in that year's audit opinion.

Year	Scale Fee	Variation	Total	PSAA agreed fee
2019/20	35,536	108,585	144,121	Fee agreed by PSAA
2020/21	35,536	130,848	166,384	Fee agreed by PSAA
2021/22	35,536	186,483	222,019	Provisional – to be agreed by PSAA
2022/23	35,536	Unknown	Unknown	To be agreed by PSAA
VFM fee variation	-	19,031	19,031	Provisional – to be agreed by PSAA

Independence and fees (continued)

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

Fees	Upon finalisation of the FY2022/23 financial statements, we will engage in a detailed discussion with management to determine the final estimated hours and associated costs for the backstop audit procedures with the final fee being agreed by the PSAA. 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	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.

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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