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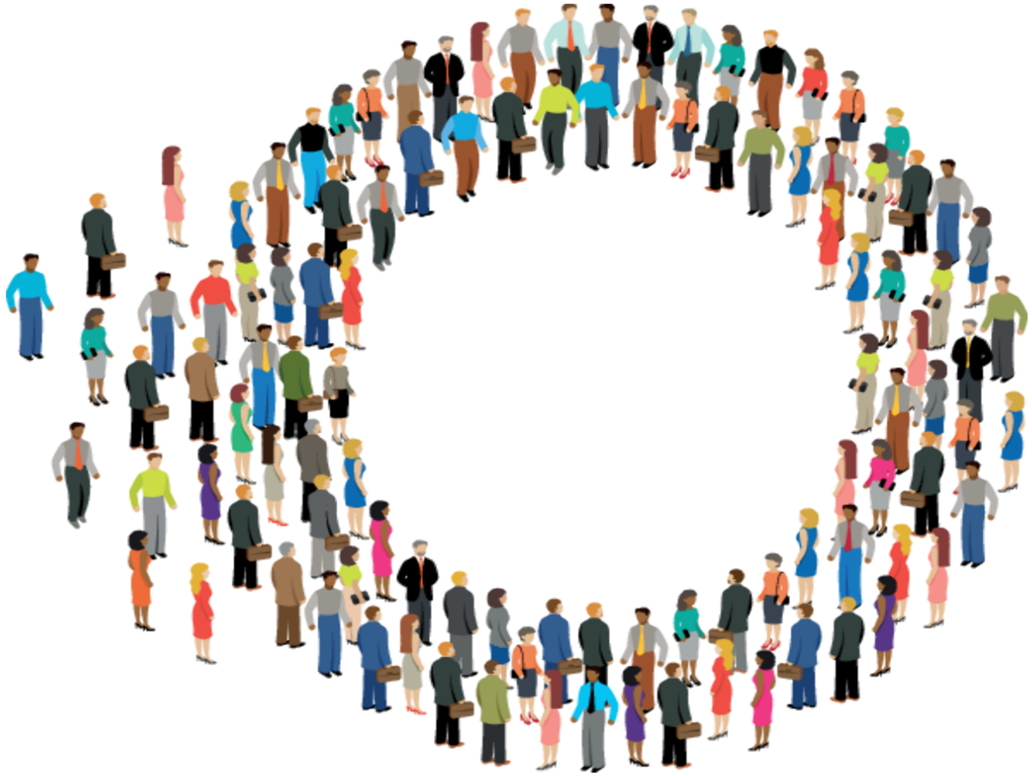
Tandridge District Council



Tandridge District Council

Update to the Audit Committee following finalisation of the audit for the year ended 31 March 2020

Issued on 27 January 2022

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.

This report provides an update on the finalisation of matters that were open at the time of our report of 25 November 2020 on the 2019/20 audit, with the updated elements marked in red.

Status of the audit	Our audit is complete and the matters outstanding at the time of our previous report have been updated. Completion of the work in respect of the items reported by the pension scheme auditor has identified some misstatements which are included in our schedule of unadjusted misstatements. Conclusion on the valuation of newly acquired properties has resulted in an adjustment of £0.9m to the valuation. Completion of work on reserves identified that an adjustment had been recognised in year for the cumulative correction of postings between the revaluation reserve and the capital adjustment account (both unusable reserves) of £4.8m. Following review of the treatment of this adjustment, this has been separately presented as an opening balance adjustment but has not been restated as the impact (adjusting between two unusable reserves, and without impact on the Balance Sheet or Movement in Reserves Statement) is not material to a user of the financial statements. Other procedures in clearing points raised on the financial statements have resulted in amendments to the accounts, or disclosure deficiencies reported in our audit adjustment section. We have included a section in this report providing observations arising from the work on the areas of significant risk and other areas of audit focus reported to you in our audit planning report.
Conclusions from our testing	• The financial statements have been adjusted for changes in property valuations identified through our testing. Other adjustments and disclosure deficiencies are summarised on page 22. • Our audit report on the financial statements is unmodified, and as previously reported includes an emphasis of matter in relation to property valuations (page 10). As previously reported, we have issued a qualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources (page 14). • We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 6-8. Further details are included in our work on the property valuation, where management's expert identified a material valuation uncertainty. This is common to 31 March 2020 valuations in the sector. This wording is reflected in our auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic.

Introduction

The key messages in this report (continued)

Financial Sustainability and Value for Money	• The Council's 2019/20 budget included £10.4m net expenditure for the provision of services, including £1.8m of savings, £0.8m were from the Customer First programme. The outturn for 2019/20 was an overspend of £1.99m. This has required the unplanned use of £1.6m of reserves. As a result, the Council's total general fund (including earmarked reserves) reserves are £4.0m at 31 March 2020. • The Council has a relatively low level of General Fund reserves, increasing the risks to financial sustainability, particularly in the context of the pressures from Covid-19 on income and expenditure going forward. • A funding gap has been identified in the Medium Term Financial Plan ("MTFP"). • Our review of arrangements has concluded that the Council's arrangements in respect of monitoring and managing this funding gap are inadequate. This is discussed in further detail on page 15. • As discussed on page 15, we considered arrangements around the Council's wider governance arrangements, including considering the findings of internal audit and the Centre for Public Scrutiny report issued in January 2020. In light of these findings, we conclude that governance arrangements at the council during the period were inadequate and did not facilitate informed decision making. We have issued an adverse Value for Money conclusion. On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are not satisfied that, in all significant respects, Tandridge District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.
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 made recommendations for some changes to the narrative statement and annual governance statement which are satisfactorily addressed in the final version.
Duties as public auditor	• We did not receive any formal 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	• We are not a sampled component for WGA reporting.

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

The primary changes this year were the outbreak of Covid-19 and the concerns around governance and controls identified from reports commissioned by the council.

Scoping

Covid-19 consequences have impacted our work. Details are included on pages 6 -8. There have been no other changes to the scope of our work as set out in the audit plan which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. Audit adjustments arising are summarised on page 23.

Control observations will be reported in a separate audit letter.

Identify changes in your business and environment → Determine materiality → Scoping → Significant risk assessment → Conclude on significant risk areas → Other findings → Our audit report

Determine materiality

When planning our audit we set our materiality for the Council audit at £1.4m (2018/19: £1.3m) based on approximately 2% of estimated gross expenditure. Materiality has not changed since our planning report. We report to you in this paper all misstatements above £68k (2018/19: £65k).

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report. No additional risks have been identified since our Audit Plan.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks from the work so far performed. The Committee members must satisfy themselves that management's judgements are appropriate.

Our audit report

We expect to include an emphasis of matter in relation to property valuation in our audit report, including the council's investments in property assets – see page 10. Due to the relative proportion of property assets in the pension scheme, we have not specifically referred to this in our opinion.

We have issued a qualified value for money conclusion – see page 14.

Covid-19 and its impact on our audit

Covid-19 pandemic and its impact on our audit.	
Requirements	CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments. Entity-specific explanations of the current and expected effects of Covid-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation. As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.
Actions	A thorough assessment of the current and potential future effects of the Covid-19 pandemic is required including: • A detailed analysis across the council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves; • The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); • Any material uncertainties relating to the council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and • The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
We have considered the key impacts on the business such as: • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in income. • The closure of facilities and premises.	We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including: • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Bad debts provision policy • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses	We have considered the impact on the audit including: • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel.

Covid-19 and its impact on our audit

	Potential Impact on annual report and financial statements	Audit response
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and has required specific disclosure in the financial statements. Consequently, this has resulted in an Emphasis of Matter in our audit report.	The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020. The material uncertainty is disclosed in the Statement of Accounts and leads to an Emphasis of Matter in our audit opinion.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility.	We engaged with the Surrey Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. The Surrey Pension Fund auditor included an Emphasis of Matter in respect of property valuations in their opinion. We have concluded that, due to the relative proportion of pension assets within the pension scheme (which is an overall accounting estimate in the accounts of the council), we have not separately made reference to this in our audit report.
Expected credit losses	The Council considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	The majority of the council's debtors are outside of the scope of IFRS 9. We concluded that management's provisioning for affected balances remained reasonable at 31 March 2020.

Covid-19 and its impact on our audit

	Potential Impact on annual report and financial statements	Audit response
Covid related income received pre year end	The council only received £26k of Covid-19 related income pre year end so this does not have a material impact on the 2020 financial statements. The Local Authority Support Grant and S31 Business Rates Relief Grants were received post year end and will impact 2021.	• We note that after discussion and reference to guidance these have been treated correctly in the statement of accounts. • The remaining Covid related income receipts received after the year end will be considered as part of the 2020/21 audit.
Narrative and other reporting issues	The following areas need to be considered by local authorities as having being impacted on by the Covid-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.	We note that the narrative report discloses the most significant matters related to Covid-19. We have made some recommendations for improvement in this area, which were satisfactorily addressed in the final statement of accounts.

Significant risks

Management override of controls

Risk identified
In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Deloitte response

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

- The Council's results throughout the year did project both positive and negative divergences from budgets in operational areas. This was closely monitored and whilst some areas projected overspends, the underlying reasons were understood. We do note that earmarked reserves were drawn down at a greater level than planned. There were adequate reserves to support this, though the draw down rate cannot continue at the current levels into the future.
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

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

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. In particular, in the current year we have included analytical procedures to identify potential transactions relating to the Customer First project which have been considered to be of a higher risk and were selected for testing if identified.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. Our work in this area is substantially complete - no issues have been identified to date.

Accounting estimates

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

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate and the valuation of the pension liability, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

No issues were identified from conclusion of our work in this area.

Significant risks (continued)

Valuation of property assets

Risk identified

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

Key judgements and our challenge of them

The Council held total assets across PPE and Investment Property of £367.3m at year end (31 March 2019: £370.0m). In PPE, the Council held £345.7m of property assets in Land and Buildings and Council Dwellings at 31 March 2020, a decrease from the £363.9m held at 31 March 2019.

This decrease of £18.2m is the net impact of several factors principally:

Increasing factors – TOTAL: +£6.2m

- Additions of £4.9m
- Transfers from Assets Under Construction of £1.3m

Decreasing factors– TOTAL: -£24.4m

- Net revaluation impact of £13.8m
- Disposals & derecognition impact of £4.9m
- Depreciation of £5.7m

Investment properties had movements due to additions of £15.4m and revaluation of an immaterial £0.2m giving a carried forward valuation of £21.7m (31 March 2019: £6.1m).

The financial year to 31 March 2020 represented year one of the five year rolling programme in which a portion of the total asset portfolio was revalued at 31 December 2019.

In addition, the Council commissioned its valuer to perform a market review providing information on market changes across 2019/20. On the basis of information in this report, the Council elected to adjust the valuation of properties to account for market changes during 2019/20.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation.
- We obtained an understanding of approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We tested a sample of inputs to the valuation.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets including considering the assumptions made of movements between the valuation being performed at earlier stages in the year and the year-end.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check correctly recorded.
- We considered the impact of uncertainties relating to Covid 19 and the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.
- We identified two assets which were recently acquired which were not included in the professional valuation exercise. We considered that these required further appraisal and requested that management prepare an impairment review of these assets. The results of this review identified an adjustment of £0.9m which has been adjusted for in the final statement of account.

Significant risks (continued)

Valuation of property assets – Material Uncertainty due to Covid-19

Material Uncertainty due to Covid 19

The Council's valuer has included disclosures in relation to Covid 19 in their report including the extracts below:

"The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. For the purposes of this review we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our review (and any valuations completed during 2019/20) is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty –and a higher degree of caution –should be attached to our review/valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of portfolio under frequent review."

This is a common feature of valuation reports prepared to 31 March 2020.

Similar considerations affect the Council's investment in a property fund, and are included in the disclosure in note 4 to the financial statements and in our audit opinion.

Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. This can be seen in the narrative report, an extract of which is included below:

"The Council had its Property Plant and Equipment valued as at 31st December 2019, before the impact of the Covid-19 pandemic. Subsequently, the pandemic has created an unprecedented set of circumstances which has led to the Councils valuer declaring a "material valuation uncertainty" in their valuation report. Given that there is no alternative information to suggest the valuations are materially incorrect, the values obtained as at 31st January 2020 are the best available reflection of the value of the Councils assets as at 31st March 2020."

This disclosure is required to be included in the actual financial statements as well as the narrative report and relevant disclosures have been added to note 4.

Impact on Audit Opinion

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure:

"We draw attention to note 4, which describes the effects of the uncertainties created by the coronavirus (Covid-19) pandemic on the property valuation, including the Council's properties, investment properties, and investments in property funds.

As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the Council's properties, investment properties, and investments in property funds at the balance sheet date. Our opinion is not modified in respect of this matter."

Deloitte view

Following adjustment to the valuation of an asset purchased in the year, we have concluded that the net book value of property assets is not materially misstated. The Council's valuation assumptions are generally reasonable and fall within the expected range highlighted by Deloitte Real Estate.

Significant risks (continued)

Completeness of liabilities and expenditure

Risk identified
Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals.
For 2018/19, the Council approved a budget with a net cost of service of £9.98m. As at the end of the year, the Council reported a net underspend of £64k. Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals and provisions.

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

- We obtained an understanding of and tested the design and implementation of the key controls in place in relation to recording completeness of expenditure and accruals;

- We performed focused testing in relation to the completeness of expenditure including a detailed review of expenditure and accruals;

- We have performed testing for unrecorded liabilities based on payments made and expenses recorded in the period after year end to the end of June;

- As part of the above focused testing, we challenged the assumptions made in relation to year-end accruals; and

- In addition, we have reviewed significant movements in accruals year on year and evaluated for consistency with our understanding of the Council and, where considered appropriate, corroborated the reason for movement to supporting information.

Deloitte view
No issues were identified following completion of our work in this area.

Other matters
Defined benefits pension scheme

Background

The Council participates in the Surrey Pension Plan, administered by Surrey County Council.

The net pension liability has decreased from £52.4m at 31 March 2019 to £50.9m at 31 March 2020.

The Council's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. We would expect to see a past service credit being recognised from an adjustment to the McCloud allowance previously recognised in FY19. The size of this adjustment would depend on how many members joined active service post 1 April 2012. Although we disagree with the approach taken of making no adjustment, this would not result in a material error at 31 March 2020.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow).
In our view the outcome of the Goodwin ruling is a post balance sheet adjusting event, and any additional liability arising from the ruling should be recognised as a past service cost in the current year. We are aware that CIPFA has issued differing draft guidance that Goodwin could alternatively be treated as a contingent liability, if material to the accounts, on the basis of a best estimate; however we and others believe that this is incorrect. We understand that the estimated Goodwin impact is between 0.0% and 0.3% of the DBO, which would result in an additional liability for the TDC of up to c.£360k which is not material. Whilst we understand there is a lack of relevant data available, we do not consider the actuary's approach to be reasonable and that overall, an allowance should be made.

Deloitte response

We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts.

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table below.
- We sought assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. Their report indicated that pension asset were overstated, and we have included £0.3m in our schedule of audit adjustments for the Council's share of this.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.30	2.63	Reasonable, slightly prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.90	2.15	Reasonable, slightly prudent
Salary increase (% p.a.) (over CPI inflation)	2.8	Council specific	Reasonable
Pension increase in payment (% p.a.)	1.90	2.15	Reasonable
Pension increase in deferment (% p.a.)	1.90	2.15	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22.1	21.80	Reasonable, slightly optimistic
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	22.9	23.20	Reasonable, slightly optimistic

Deloitte view

The schedule of audit adjustments includes amounts for the McCloud and Goodwin cases and the findings of the pension scheme auditor. These are not material to the financial statements.

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

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work. We note that the NAO guidance indicates a low likelihood that Covid-19 forms a risk area impacting the assessment of arrangements for 2019/20. Rather this will form part of the risk assessment and evaluation for 2020/21. The response to Covid-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the 2019/20 financial year.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report including discussion with relevant officers and review of Council documentation including internal audit reports. As noted in our planning report, there are a number of risk factors identified, including:
- The findings of the report from Centre of Public Scrutiny
- Internal Audit findings for the year
- The net expenditure for the provision of services in the General Fund is £16.8m which is an over spend on the budgeted position for 2019/20 of £2.0m leaving a closing combined general fund balance of £4.0m (2019: £5.7m).
- The Council has a number of vacancies and acting appointments in its Corporate Management Team and other senior roles.

We have therefore identified significant risks in respect of arrangements over sustainable resource deployment and informed decision making through initial risk assessment procedures and deepening our understanding, we did not identify any further significant risks from our remaining risk assessment procedures.

Our conclusion on the Council's arrangements is in respect of the arrangements in place during the financial year under audit – the subsequent activity that the Council has taken in response to issues identified in year is outside of the scope of our conclusion. These will instead be considered in our 2020/21 audit (which will be conducted under the new 2020 Code of Audit Practice). However, for context we note that the 2020/21 budget set in February 2020 included £0.3m of use of reserves in 2020/21, before the impact of Covid-19 upon the Council (and prior to identification of issues over pension amounts in the budget). There has been significant work on the budget and Medium Term Financial Strategy subsequent to year-end, reflecting both existing challenges and the impact of Covid-19, and work has continued to improve the Council's finance processes (including reviews on issues identified during 2021).

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

Sustainable Resource Deployment (Financial Sustainability):

The Council's 2019/20 budget included £10.4m net expenditure for the provision of services, including £1.8m of savings, £0.8m were from the Customer First programme. The outturn for 2019/20 was an overspend of £1.99m. This has required the unplanned use of £1.6m of reserves. As a result, the Council's total general fund (including earmarked reserves) reserves are £4.0m at 31 March 2020.

The drivers for the overspend included additional costs incurred in respect of staff, in particular in respect of temporary and interim resourcing needs that were not planned for as part of the Customer First programme.

These issues are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions and managing and utilising assets effectively to support the delivery of strategic priorities.

Post year end, extensive work has been undertaken to better understand the underlying cost base of the council and to rebase the MTFS. The extent of the work required to understand and turnaround the council's financial outlook post year end, including issues identified around how pension costs were treated, is a clear demonstration that adequate planning and control had not been maintained previously in the year under audit. This has been significantly exacerbated by the unexpected Covid-19 pandemic which has caused significant disruption to the council, along with the all other local government bodies.

Informed decision making

During the year, as a result of concerns identified internally, the Centre for Public Scrutiny was requested to perform an independent review of the Council's governance arrangements. This report identified wide ranging shortcomings in the governance arrangements which were in place at the Council and, specifically, highlighted a number of findings indicating weaknesses in arrangements for effective, informed decision making. Examples of matters that we are required to consider in this area include:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance;
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions;
- Reliable and timely financial reporting that supports the delivery of strategic priorities; and
- Managing risks effectively and maintaining a sound system of internal control.

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

Informed decision making (continued)

The report by the Centre for Public Scrutiny highlights a number of ways in which decision making has been hindered by an ineffective flow of information and poorly defined roles and responsibilities within the council. It also highlights a lack of clear analysis of risks and a failure to properly assess the risks relevant to the organisation, analysing each against the risk appetite which the council has for each and making operational risks accordingly. The report has been accepted by the council and we understand that a number of the recommendations included are now being implemented.

We have also reviewed the reports issued by internal audit and have considered the findings around the system of internal control at the council, including their overall conclusion of “limited” assurance for the year, along with their findings in respect of the Customer First project.

We note the high turnover of officers in the key senior management positions at the council in the year and that some of these posts remained vacant for part of the period. This in itself will have compromised the ability of the organisation to maintain a system of good governance, whereby, decisions are made based on strong communication and a sound flow of information, and remained an on-going challenge.

We have therefore concluded that these issues are evidence of weakness in the Council’s arrangements in respect of informed decision making.

Finding in opinion	Summary of procedures undertaken
Sustainable resource deployment The Council's 2019/20 budget included £10.4m net expenditure for the provision of services, after planned savings of £1.8m, £0.8m of which were from the Customer First programme. The outturn for 2019/20 was an overspend of £1.99m. This has required the unplanned use of £1.6m of reserves. As a result, the Council's total general fund (including earmarked reserves) reserves are £4.0m at 31 March 2020. The drivers for the overspend included additional costs incurred in respect of staff, in particular in respect of temporary and interim resourcing needs that were not planned for as part of the Customer First programme. **These issues are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.**	• Meetings with management to understand the evolving financial position of the council; • Review of council finance and budget monitoring reports; and • Review of budget documents.
Informed decision making The opinion of the foundation trust’s Head of Internal Audit is that only ‘limited’ assurance can be placed on the framework of governance risk and control. His findings include weakness in the processes and controls in place around a number of areas including procurement, disaster planning, exceptional payroll payments and the Customer First project. **These issues provide evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control.**	• Meetings with internal auditor; • Review of internal audit reports; • Reflecting the findings of internal audit reports in our risk assessment; and • Enquiries of management about fraud and the opportunity for fraud within the organisation.

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

Finding in opinion	Summary of procedures undertaken
During the year, as a result of concerns identified internally, the Centre for Public Scrutiny was requested to perform an independent review of the Council's governance arrangements. The review identified a number of issues in respect to leadership, workforce, and finances, arising from and impacting upon how governance structures are operating within the Council. In addition, during the year, there have been significant gaps in the senior leadership team of the Council, due to both individuals leaving and illness. **These issues provide evidence of weaknesses in proper arrangements for:** • **managing risks effectively and maintaining a sound system of internal control;** • **understanding and using appropriate and reliable performance information to support informed decision making and performance management; and** • **demonstrating and applying the principles of sound governance.**	• Review of the report issued by the Centre for Public Scrutiny; • Discussion of the report with management; and • Ongoing understanding of key leadership appointments to the council.

Deloitte view

We have issued an adverse (qualified) “value for money” conclusion.
Due to the on-going impact of these issues on the Council (albeit mitigated by actions being taken to address them in accordance with the relevant action plans in response to issues identified), we have identified risks of significant weakness in VfM arrangements for the 2020/21 audit, which will be reported upon separately as part of that audit.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Our opinion on the financial statements is unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

We include details on the other matter paragraph in relation to property valuations on page 11 of this report.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Our value for money conclusion

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).

We have issued a qualified value for money opinion.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Following adjustments made to disclosures, we are satisfied these requirements are met.

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 - Future sustainability and risks to this posed by Covid-19.	We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit. We fed back some improvements that could me made in relation to the links between the numbers quoted in the narrative report and the financial statements, in particular suggesting possible additions to the Covid-19 commentary. We have considered the sustainability narrative including the requirement to discuss and evaluate the impact of Covid-19 within this assessment. Our assessment of the impact of Covid-19 can be seen from page 6. We have checked that the report includes all the relevant disclosures. Following adjustments, overall we concluded satisfactorily in this matter.
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 guidance, is misleading, or is inconsistent with other information from our audit.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

- Results of our work on key audit judgements and our observations on the Narrative Report.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

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

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

The scope of our work

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

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

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

Deloitte LLP

for and on behalf of Deloitte LLP
27 January 2022

Appendices

Audit adjustments

Unadjusted misstatements

The following uncorrected 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). Uncorrected misstatements increase the deficit by £0.2 million, other comprehensive expenditure by £0.6 million and decrease net assets by £0.8 million.

		Debit/ (credit) income statement £m	Debit/ (credit) Other comprehensive income £m	Debit/ (credit) in net assets £m	Debit/ (credit) Equity £m
Classification of partnership income	[1]	0.4 (0.4)			
Impact of McCloud ruling	[2]		(0.1)	0.1	
Impact of Goodwin ruling	[2]		0.4	(0.4)	
Valuation of pension assets	[2]		0.3	(0.3)	
Presentation of debtor balance incorrectly shown in creditors	[1]		0.1 (0.1)		
Assets disposed of but not removed from the fixed asset register	[3]	0.2		(0.2)	
		0.2	**0.6**	**(0.8)**	

[1] – Presentation of partnership income (netted of expenditure) of £430k and other debtors of £112k (shown in creditors) should be shown gross in the accounts.
[2] – The McCloud and Goodwin rulings provide additional information about the valuation of the pension liability and we estimate reduce the McCloud element of the liability by c£100k at 31 March 2020, and would be an increase in the liability for Goodwin's impact of c£360k. The findings from the pension scheme auditor indicated assets were overstated at 31 March 2020, and the Council's share of this we estimate as c£0.3m.
[3] – Two properties were identified as having been disposed of but not removed from the fixed asset register, with a value of £193k.

Disclosures

We are awaiting updates from management on our disclosure recommendations and will conclude in due course.

Audit adjustments
Unadjusted disclosure deficiencies

We identified the following uncorrected disclosure deficiencies, which will be considered by management in the finalisation of the 2020/21 Statement of Account.

Disclosure title	Description of Disclosure Misstatement
Risks and opportunities disclosure in the narrative report	The Code requires disclosure of "Any significant future opportunities to develop services, along with key risks and uncertainties in relation to future service provision (including financial risks) and risk mitigation measures"
Performance disclosures	The Code requires an analysis of any key financial and non-financial performance indicators as relevant to the performance of the authority that it judges as central in assessing progress against its strategic objectives, or monitoring its risks or otherwise used to measure performance in the year
Performance disclosures	The Code requires that any performance indicators used in the narrative report represent, where possible, generally accepted measures of performance for local authorities whether on a corporate, financial or service basis, include comparatives, are supported by an explanation of any significant changes from year to year, and are appropriately described where necessary. This is not consistently done in the narrative report.
Disclosure of factors affecting cashflows	The Code requires as part of financial sustainability disclosures the narrative report include details on cash flows during the year and the factors that may affect future cash flows
Credit risk management disclosures	In order to explain its credit risk management practices and how they relate to the recognition and measurement of credit losses, the Code requires disclosures of information to enable an understanding and evaluation of the authority's definitions of "default", including the reasons for selecting those definitions
HRA vacant possession disclosures	Where the information is material, the following disclosures should be made in the notes to the HRA statements: The vacant possession value of dwellings within the authority's HRA as at 1 April. 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.
Missed disclosures relating to impairment of financial instruments	The authority should explain the inputs, assumptions and estimation techniques used to apply the requirements for impairment of financial instruments by disclosing the basis of inputs and assumptions and the estimation techniques used to: i) Measure the 12-month and lifetime expected credit losses ii) Determine whether the credit risk of financial instruments has increased significantly since initial recognition iii) Determine whether a financial asset is a credit-impaired financial asset and disclose how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macro-economic information
Other comprehensive income/expenditure disclosures	There is not disclosure of items of other comprehensive income and expenditure grouped into those that : i) Will not be reclassified subsequently to the surplus or deficit on the provision of services, and ii) Will be reclassified subsequently to the surplus or deficit on the provision of services when specific conditions are met It is also not disclosed whether components of other income and expenditure been presented either: a) Net of related tax effects, or b) Before related tax effects with one amount shown for the aggregate amount of income tax relating to those components
Defined benefit obligation disclosures	The Code states pension disclosures should include information about the maturity profile of the obligation, including the weighted average duration of the obligation, and can include other information such as maturity analysis of benefit payments.
Presentation of income from Quadrant House as investment property income	The presentation of investment property income of £746k and costs of £174k includes amounts in respect of Quadrant House, which is now an operating property

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

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

Required representations:

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

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified capitalisation of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

In particular, we have held regular meetings with Internal Audit 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.

Concerns:

No significant concerns have been identified from our work

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 that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The "scale fee" set by Public Sector Auditor Appointments Limited for the financial statement audit, including whole of government accounts and procedures in respect of the value for money assessment, is £35,536. We have previously reported that we will be proposing fee variations for the council reflecting: • our experience of the cost of delivery of the audit; • the areas of increased and/or additional accounting and audit complexity and risk arising from the Covid-19 pandemic; • wider factors impacting the cost of the delivery of the audit due to regulatory changes and requirements. Following agreement with management and approval with PSAA, these will be reported to the Council. We consider that the scale fees at present are significantly below the cost of delivery of the audit. No other non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.