



# **Tandridge District Council**

Report to the Audit & Scrutiny Committee on the 2020/21 audit

Issued on 15 September 2022 for the meeting on 27 September 2022

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# Introduction

## The key messages in this report

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

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

I have pleasure in presenting our report to the Audit & Scrutiny Committee of Tandridge District Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2021.

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**Status of our Statement of Accounts audit**

Our audit is at an advanced stage but remains ongoing as at the date of this report. There are various open items, however, the key items that are outstanding are as follows:

- finalisation of journals testing;
- value for money;
- receipt of financial statements after addressing comments raised during the audit and updating due to the passage of time;
- completion of internal quality assurance procedures;
- collection fund testing;
- the council's assessment of expected credit risk in line with IFRS 9;
- conclusion on property valuations;
- conclusion on the pension liability and assumptions;
- miscellaneous outstanding sample items and follow up queries;
- receipt of signed management representation letter; and
- our review of events since 31 March 2021 through to signing.

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

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**Status of our Value for Money audit**

Our work in this respect is still ongoing, however, we expect to report a number of significant weaknesses in the arrangements to secure value for money. We will finalise our findings in our draft report in due course, however, we anticipate reporting weaknesses in the following areas:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services. In particular, we note from our discussions with management that at the beginning of the period there were weaknesses in management's understanding of overspending and deviations from plan were not reliably understood. We note that the council has limited reserves.
- 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 and control. These issues provide evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control. We noted weaknesses in how the body approached and carried out its annual budget setting process.

# Introduction

## The key messages in this report (continued)

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**Conclusions from our testing**

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

**Narrative Report & Annual Governance Statement**

- We have reviewed the Council's Annual Report & 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 and we are awaiting a final updated version.

**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

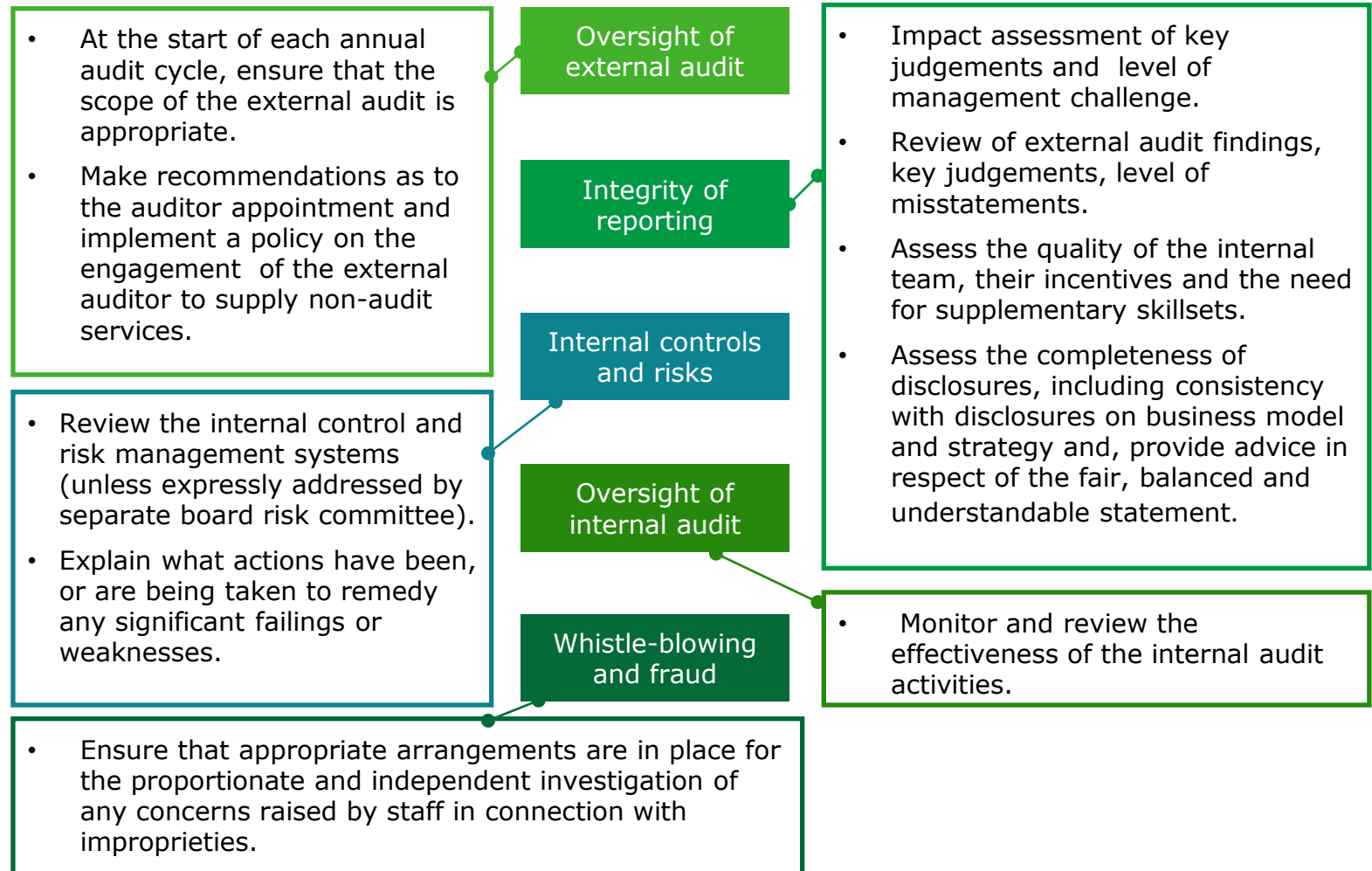
Why do we interact with the Audit & Scrutiny Committee?



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



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



# Quality indicators

## Impact on the execution of our audit

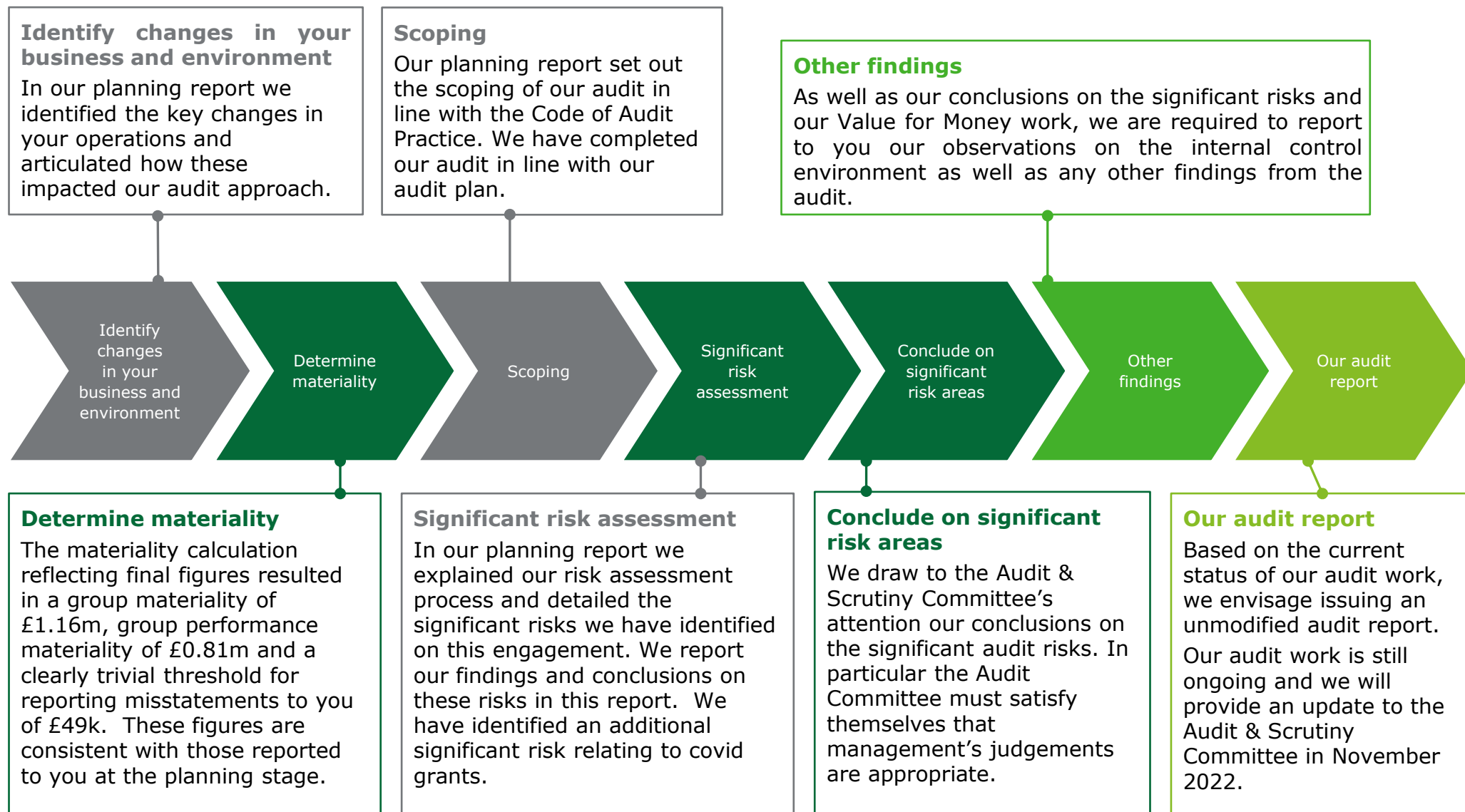


Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics which can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

Area	Grading	Further detail
Adherence to deliverables timetable	!	<p>There have been challenges throughout the audit in this regard which have caused delays in the finalization of the audit. Management have been competent and engaged however we have experienced delays in receipt of responses to some audit requests throughout the audit period.</p> <p>We have included data from Connect in relation to the timeliness of data in order for Deloitte and Management to work together to agree a Connect Protocol on how we will use Connect in order to hold each other to account and ensure we see improvements in this area which will be beneficial to both teams going forward.</p> <p>We have scheduled bi-weekly 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.</p> <div data-bbox="1464 778 1908 1150"> <p>Completed Requests ⓘ</p> <p><b>19%</b> ON TIME    <b>47</b> AVG DAYS OVERDUE</p> <p>On time <span style="display: inline-block; width: 83px; height: 10px; background-color: #28a745; margin-right: 5px;"></span> 83</p> <p>Overdue 1-7 days <span style="display: inline-block; width: 97px; height: 10px; background-color: #17a2b8; margin-right: 5px;"></span> 97</p> <p>Overdue 8+ days <span style="display: inline-block; width: 260px; height: 10px; background-color: #0056b3; margin-right: 5px;"></span> 260</p> </div>
Access to finance team and other key personnel	●	We are communicating daily with the finance team.
Quality of draft financial statements	!	We note that much of the narrative in the draft accounts has not been updated to reflect the passage of time between their first drafting and our anticipated date of signing. We have recommended that management update the text which they have agreed to do. Whilst the draft accounts were of a reasonable quality, some of our comments/queries have gone unanswered for over a year.

# Our audit explained

We tailor our audit to your organisation and your strategy



# 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.
<b>Significant risks</b>						
Valuation of property assets				Satisfactory		9
Completeness of liabilities and expenditure				Satisfactory		10
Recognition of COVID-19 grant income				Satisfactory		11
Management override of controls				Satisfactory		12
<b>Area of Audit Focus</b>						
Pension liability valuation				Satisfactory		14

### Controls approach adopted



Assess design & implementation

\* Subject to satisfactory conclusion of minor outstanding matters



# Significant audit risks and areas of audit focus

## Valuation of property assets

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**Risk identified**

The Council is required to hold property assets within Property, Plant and Equipment 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.

The Council held £376m of property assets at 31 March 2021, a movement of £9.4m, when compared to 31 March 2020.

The Council updates the valuation of its properties using a rolling revaluation programme. The effective date of this valuation was 31 December 2020.

For Investment Properties, the Council instructs its valuer to perform a full revaluation on an annual basis as at 31 December with a review of index movements to year end.

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**Deloitte response and challenge**

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

- We have reviewed the design and implementation of the controls in place in relation to property valuations;
- We are considering 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;
- We have 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;
- We sample tested key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
- We are reviewing assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- We have considered the impact of Covid-19 on the valuation of property assets and ensured, where necessary, the Council has reflected the impact in their valuations; and
- We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

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**Conclusion**

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

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

# Significant audit risks and areas of audit focus (continued)

## Completeness of liabilities and expenditure

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<b>Risk identified</b>	<p>Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. At the planning stage, we expected to rebut the risk of fraud in revenue recognition. As an alternative, we concluded that the fraud risk lay with the completeness of expenditure and completeness and valuation of accruals.</p> <p>For 2020/21, the current approved budget Council was for net expenditure of £11.3m. Given the Council's current budget position and the cost pressures across the sector, there is a risk that the year-end position could be manipulated by omitting or understating accruals. There is also a heightened risk of costs being omitted due to the ongoing impact on ways of working at the council and in suppliers and in light of the extremely challenging financial position at the council.</p> <p>This slide addresses this identified risk, however, at the final audit, we identified accounting for covid grants as an additional audit risk within the revenue balance. This is reported to you on slide 11.</p>
<b>Deloitte response and challenge</b>	<p>We have completed the following procedures:</p> <ul style="list-style-type: none"><li>• 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;</li><li>• We performed focused testing in relation to the completeness of expenditure including a detailed review of expenditure and accruals;</li><li>• We are performing testing for unrecorded liabilities based on payments made and expenses recorded in the period after year end to the end of June;</li><li>• As part of the above focused testing, we challenged the assumptions made in relation to year end accruals; and</li><li>• 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.</li></ul>
<b>Conclusion</b>	<p>We have not yet concluded on the work in its entirety, as the some of the procedures are currently being performed by the engagement team, namely our work on unrecorded liabilities. Other tests supporting this risk are substantially complete and no errors have been identified.</p> <p>Any issues noted based on the conclusion of our engagement team work will be communicated to the Audit &amp; Scrutiny Committee in the form of finalized ISA 260 letter later.</p>

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# Significant risks and areas of audit focus (continued)

## Recognition of Covid-19 grant income

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<b>Risk identified</b>	<p>ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.</p> <p>We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the Covid-19 pandemic, there is no significant risk of fraud.</p> <p>During 2020/21, the Council has received additional funding in relation to Covid-19 grants. In addition, there are a number of business support schemes designed to help eligible businesses during the Covid-19 pandemic that are being administered by Councils on behalf of Central Government.</p> <p>We have pinpointed the significant risk to the completeness and accuracy of the agency arrangement disclosures, where the Council has acted as an agent on behalf of Central Government in administering Covid-19 grants.</p> <p>The key judgement for management is assessing whether the Council is acting as a principal or agent in administering the Covid-19 schemes, and how this is subsequently recognised in both the Comprehensive Income and Expenditure Statement and Balance Sheet.</p>
<b>Deloitte response and challenge</b>	<p>We have completed the following procedures:</p> <ul style="list-style-type: none"><li>• Assessed the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding;</li><li>• We reviewed the accounting treatment of each significant grant claim and challenged the appropriateness of the approach adopted.</li><li>• Tested a sample of funding for Covid-19 grants and confirmed these have been recognised in accordance with any conditions applicable, including appropriate recognition in both the Comprehensive Income and Expenditure Statement and Balance Sheet;</li><li>• Considered the adequacy of disclosures in the financial statements, including accounting policies and where relevant critical accounting judgement and key sources of estimation uncertainty disclosures;</li><li>• Tested the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:<ul style="list-style-type: none"><li>• Transactions have been excluded from the Comprehensive Income and Expenditure Statement;</li><li>• The Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and</li><li>• The net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.</li></ul></li></ul>
<b>Conclusion</b>	<p>Our work is substantially complete and we have no matters to bring to the attention of the Audit &amp; Scrutiny Committee at this stage, however, final review remains ongoing and we have one procedure to finalise.</p>

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# Significant audit risks and areas of audit focus (continued)

## Management override of controls

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**Risk identified**

There is a presumed risk of management override of controls in all audits. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.

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**Deloitte response and challenge**

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

- 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.

### Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

### Significant transactions

- We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.
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# Significant audit risks and areas of audit focus (continued)

## Management override of controls

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**Deloitte response and challenge (continued)****Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.
- 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.

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**Conclusion**

We have no matters to bring to the attention of the Audit & Scrutiny Committee at this stage, however, managerial and director level review and some follow up requests on journals testing remain outstanding.

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# Significant audit risks and areas of audit focus (continued)

## Area of audit focus: Pension liability valuation

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**Risk identified**

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Surrey Pension Fund, which is part of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2021, this totalled £62.73 million. As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated.

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**Deloitte response and challenge**

We have completed the following procedures:

- We obtained a copy of the actuarial report for the Council produced by Hymans Robertson, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures.
- We reviewed the disclosures made in the Statement of Accounts against the requirements of the Code.
- We sought assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We are reviewing and challenging the assumptions made by Hymans Robertson with the support of our internal pension specialists.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.

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**Conclusion**

We have not yet concluded on the work in its entirety, as the various actuary assumptions are currently being evaluated by the our pension specialist.

In addition, Grant Thornton reported to us that Private Equity investments of Surrey Pension Fund are understated by £38m. Tandridge District Council has 1.61% of scheme assets, so applying this adjustment to the Council's accounts would result in £608k adjustment in respect of net pension liabilities (see page 23).

Any further issues, based on the conclusion of our specialist work, will be communicated to the Audit & Scrutiny Committee in the form of finalized ISA 260 letter later.

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# Value for money

## Our work is on-going and will be reported in our Auditor's Annual Report

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### **Value for Money requirements**

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

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Our Value for Money work is necessarily retrospective and looking at arrangements in place for the 2020/21 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 2021/22 onwards.

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### **Status of our work**

Our Value for Money work is on-going, and will be reported in our Auditor's Annual Report within the three month timeframe specified under the National Audit Office Auditor Guidance Note 3.

Based on our work, we have concluded there are significant weaknesses in arrangements in respect of financial sustainability and governance. Our financial statement audit opinion will refer to the significant weaknesses in arrangements including noting the continued weaknesses in respect of sustainable resource deployment and informed decision making which we qualified our opinion in respect of in 2019/20 under the previous Value for Money reporting arrangements.

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# Value for money

## Qualified audit conclusion

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### **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 2020/21;
- considered whistle blowing reports received in the previous period and the follow up investigation completed by the council; and
- considered the Grant Thornton reports on the budget gap and the outturn position.

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.

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### **Findings of our work to date**

Our work in this respect is still ongoing, however, we expect to report a number of significant weaknesses in the arrangements to secure value for money. We will finalise our findings in our draft report in due course, however, we anticipate reporting weaknesses in the following areas:

- **Financial sustainability:** how the body plans and manages its resources to ensure it can continue to deliver its services. In particular, we note from our discussions with management that at the beginning of the period there were weaknesses in management's understanding of overspending and deviations from plan were not reliably understood. We note that the council has limited reserves.
- **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 and control. These issues provide evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control. There are weaknesses in how the body approaches and carries out its annual budget setting process.



# Your control environment and findings

## Control deficiencies and areas for management focus

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>Internal controls</p> <p>Under ISA, we are required to obtain the understanding of the relevant controls and perform design and implementation testing in respect of the significant risks, moreover, we are required to obtain understanding of the business process as part of our risk assessment. We noted that management could not provide the relevant evidence of control reviews having taken place in some instances.</p> <p>Management explained that the reason they could not provide evidence of review controls having been completed in some instances was because staff had left the council.</p>	2022 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.	To follow pending further discussion with management.

# Your control environment and findings

## Control deficiencies and areas for management focus (continued)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>While performing the audit procedures on the pension liabilities/assets, we noted that there was an error in the Private Equity assets valuation of the Surrey Pension Funds amounting to £38m (as mentioned in the previous pages). Tandridge District Council's management was not aware of this and has not adjusted the council accounts.</p> <p>Management was not aware of this until we raised it and management has now reached out to Surrey Pension Fund and actuary. Management is currently awaiting responses before considering the actions in this respect.</p>	2022 Medium Control activities	We recommend that management should devise a mechanism which would enable management to track any changes in the fund that could affect the Tandridge District Council's books.	To follow pending further discussion with management.

# Our audit report

## The form and content of our report

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



### **Our opinion on the financial statements**

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



### **Emphasis of matter and other matter paragraphs**

We anticipate including an emphasis of matter paragraph to reflect the material valuation uncertainty included by your valuer over some of your property valuation.

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



### **Value for Money reporting by exception**

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

Our work in this respect is still ongoing. However, we expect to issue a qualified value for money opinion in line with previous year.



### **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.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019



# 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	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>• Organisational overview and external environment;</li> <li>• Governance;</li> <li>• Operational Model;</li> <li>• Risks and opportunities;</li> <li>• Strategy and resource allocation;</li> <li>• Performance;</li> <li>• Outlook; and</li> <li>• Basis of preparation</li> </ul>	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>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.</p> <p>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.</p> <p>We have requested that management update the narrative report to reflect the passage of time prior to approval of the financial statements.</p> <p>Responses to some of our points are outstanding and any issues remaining at the time of signing will be raised in the final ISA 260 report issued at the time of signing.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>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.</p> <p>Responses to some of our points are outstanding and any issues remaining at the time of signing will be raised in the final ISA 260 report issued at the time of signing.</p>

# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

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

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

## The scope of our work

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

## Use of this report

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

## What we don't report

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

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

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

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

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

Deloitte LLP

Bristol | 15 September 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 CIES by £0.6 million and increase net assets by £0.6 million.

	Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m	Memorandum Debit/ (credit) General Fund £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>					
Pension liabilities adjustment in respect of planned asset	[1]	£608k	(£608k)		
<b>Misstatements identified in prior years</b>					
	None				
<b>Aggregation of misstatements individually &lt; £816k</b>					
<b>Total</b>		<b>£608k</b>	<b>(£608k)</b>		

[1] For detail, please refer the section of "Other areas of audit focus".

# 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:

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## 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.

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## 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.

Following completion of the 2019/20 audit, we are in the process of reviewing the audit fee in order to reflect the issues which were noted during the audit and will agree this with management before presenting to the audit & scrutiny committee.

In addition, for 2021 we will be proposing a fee variations for the council reflecting

- our experience of the cost of delivery of the audit
- wider factors impacting the cost of the delivery of the audit due to regulatory changes and requirements including changes to the Value for Money Requirements.

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

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## 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.

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## Relationships

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





# Our approach to quality

## AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2020/21 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, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard.

We agree with and accept the FRC’s findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of

impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

# Our approach to quality

## AQR team report and findings

### **The AQR's 2020/21 Audit Quality Inspection Report on Deloitte LLP**

"We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard".

"Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams' oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue."

"The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm's methodology and guidance)."

# Our approach to quality

## AQR team report and findings

### **Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets**

#### **How we have addressed this area as a firm**

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

- We refreshed our Impairment Centre of Excellence ("COE") to establish clear partner leadership and introduced frequent communication touchpoints to share best practice, hot topics and technical updates.
- We performed a risk focused strategic allocation of impairment specialists for a selection of December 2020 audit engagements, taking into account industry knowledge and experience. Going forward we will seek to involve the EQCR partner to determine whether the allocated specialist should have industry knowledge or whether generalist knowledge would provide an enhanced independent challenge to an industry focused engagement team.
- We will update our impairment guidance notes and consultation document to include specific risk criteria which require further discussion with a panel of specialists, including, but not limited to, where the audit team develop their own model or where cashflow forecasts extend beyond a commonly used period.
- The launch of the Digital Blueprint project management tool will assist teams in prioritising their time across all areas of the audit.
- We will hold workshops with our partners and directors to bring to life the common causes that have led to FRC findings and to ensure greater consistency in expectations in respect of the expected depth of review.
- We have introduced a new coaching program to support the development of primary reviewing skills and to identify any reviewing skills gaps which need addressing.

- To respond to the poor quality and untimely preparation of information by the company for audit, we expect, where appropriate, to increase the communication with management and those charged with governance so that there are clearer expectations in respect of the quality of information prepared for audit.
- We have updated our impairment template memo to reflect the most recent inspection findings we will develop additional training materials on hot topics and areas of regulatory focus, for example, guidance to assist in the challenge of cash flow assumptions and cost reduction initiatives.
- We also developed a new template to support teams in auditing accounting estimates in response to the requirements of ISA (UK) 540 revised 'Auditing Accounting Estimates & Related Disclosures'.

#### **How we addressed this area in our audit**

- We have involved the valuation specialist to evaluate the valuation and assumptions of the properties of Tandridge District Council, among other procedures, they will help us identify any impairments.
- We have involved the pension specialist to evaluate whether movement within the planned assets is in line with expected change based on various financial and economical indices. This would indicate whether there could be impairment.

# 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 COVID-19 grant income 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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