



# **Tandridge District Council**

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

Issued on 25 November 2022

# Contents

---

Audit status and outstanding information	3
Your control environment and findings	4
Audit adjustments	12

# Audit status and outstanding information

## The key messages in this report

The purpose of this report is to update the Audit and Scrutiny Committee on the progress of our audit for financial year 2020/21 since we issued our draft ISA260 report on 15 Sep 2022. The scope of our audit is set out within our planning report presented to the Committee in March 2021.

<b>Status as reported in our ISA260 letter issued on 15 Sep 2022</b>	<b>Status update</b>
<p>We outlined in our report dated 15 Sep 2022 that our audit was at an advanced stage but remained ongoing. Key outstanding matters were listed as follows:</p> <ul style="list-style-type: none"><li>• finalisation of journals testing;</li><li>• value for money;</li><li>• receipt of financial statements after addressing comments raised during the audit and updating due to the passage of time;</li><li>• completion of internal quality assurance procedures;</li><li>• collection fund testing;</li><li>• the council's assessment of expected credit risk in line with IFRS 9;</li><li>• conclusion on property valuations;</li><li>• conclusion on the pension liability and assumptions;</li><li>• miscellaneous outstanding sample items and follow up queries;</li><li>• receipt of signed management representation letter; and</li><li>• our review of events since 31 March 2021 through to signing.</li></ul>	<p>We like to update you on the progress of the open items which are as follows:</p> <p><b>Items completed subject to final reviews</b></p> <ul style="list-style-type: none"><li>• finalisation of journals testing;</li><li>• conclusion on the pension liability and assumptions;</li><li>• many miscellaneous items including queries relating to staff costs, revenue and operating expenses.</li></ul> <p><b>Items which have progressed significantly and are nearing completion</b></p> <ul style="list-style-type: none"><li>• we have recently received an updated draft of the financial statements updating the narrative for the passage of time since initial drafting and responding to the comments raised during our audit.</li><li>• We have completed our internal quality assurance procedures, subject to review of the recently updated accounts to ensure all feedback has been appropriately addressed.</li></ul> <p><b>Open items</b></p> <ul style="list-style-type: none"><li>• value for money (awaiting support from management);</li><li>• collection fund testing (awaiting support from management);</li><li>• the council's assessment of expected credit risk in line with IFRS 9 (awaiting support from management);</li><li>• conclusion on property valuations (awaiting support from management);</li><li>• miscellaneous outstanding sample items and follow up queries including creditors;</li><li>• receipt of signed management representation letter; and</li><li>• our review of events since 31 March 2021 through to signing (complete to date).</li></ul>

# Your control environment and findings

## Control deficiencies and areas for management focus

(reported previously in our report dated 15 Sep 2022)

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>	<p>2021 High Control activities</p>	<p>We recommend that management should devise a protocol to ensure the evidence of review controls is retained, even if personnel changes occur.</p>	<p>The Tandridge Finance Transformation programme has introduced a new approach to Corporate Finance, involving staff changes and significant support from Surrey County Council through the Joint Working Agreement. Arrangements for 2020/21 were delivered under the previous model.</p> <p>Management agree that evidence of control reviews should be documented more thoroughly in future. The finding is exacerbated by the significant delay in completing the audit.</p>

# Your control environment and findings

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

(reported previously in our report dated 15 Sep 2022)

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).</p> <p>Tandridge District Council's management considered this an estimation difference and has therefore, not adjusted the council accounts.</p>	<p>2021 Medium Control activities</p>	<p>We recommend that management should devise a mechanism which would enable TDC management to track any unadjusted misstatements reported by the pension fund's auditor. This will enable them to evaluate those unadjusted misstatements and evaluate whether they like to adjust their accounts.</p>	<p>There is a mechanism to be able to track changes in the Pension Fund, The item in question looks to be in connection with the L3 (or Level 3) investments and is not correction of an error. As it was not deemed by the Pension Fund to be an error no adjustment was required and no adjustment was made.</p> <p>These are private market investments which are not traded in the same way as quoted or pooled instruments. The valuation of these therefore takes some time to generate. Any adjustments are down to additional information obtained after the passage of time – in some cases several months – to the time of the audit. The IAS19/FRS102 accounting estimates would have been produced with the best available information at the time and therefore stand.</p>

# Your control environment and findings

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

*(New finding – not reported previously in our report dated 15 Sep 2022)*

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>Per the Council's fixed assets policy, all HRA assets are to be revalued annually. However, during reconciliation of the fixed assets register to the valuation reports, we identified 30 HRA assets (15 properties comprising 15 land and 15 building assets) with NBV of £3,134,755 that had not been revalued in the year. On inquiry, we noted that 2 of these were additions in the year and were not valued in line with the Council's policy. No explanation was given for the 28 assets not revalued.</p> <p>In line with IAS 16, we have estimated the potential misstatement/error using the index recommendations from the Valuer's Market review report as at 31 March 2021 and proposed the adjustment.</p>	<p>2021 Medium Control activities</p>	<p>We recommend that management should ensure that information provided to the Valuer's are reviewed for accuracy and completeness.</p>	<p>Agreed and noted for future actions.</p>

# Your control environment and findings

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

*(New finding – not reported previously in our report dated 15 Sep 2022)*

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

# Your control environment and findings

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

*(New finding – not reported previously in our report dated 15 Sep 2022)*

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>During the audit, we have raised detailed queries regarding the property valuation to management. We have observed that management usually need to perform a detailed examination of the workings, or revert to the expert valuer in order to respond to us. Whilst this is perfectly reasonable in some cases, there have been instances when we would have expected management to readily know the answers as a consequence of having performed a detailed management review of the output from management's expert (and indeed from having close involvement in the inputs to their workings). If there are weaknesses in the detailed involvement of management in ensuring that inputs to the valuation workings are accurate, assumptions reflect best expectations at the time and that outputs are appropriate, there is a risk that the specialist valuer will reach an inappropriate valuation for the Council's property portfolio.</p>	<p>2021 Medium Control activities</p>	<p>We recommend that management have a close involvement with making the judgements which drive the valuation, for example, the assumptions used for MEA calculations.</p> <p>We recommend that a detailed review of the valuations completed by management's expert be carried out and evidence of the challenges made retained. Management should seek further explanations from their expert as required, in order to have a comprehensive understanding of the reasons behind all key movements in asset valuations before accepting the valuation report.</p>	<p>Apart from the MEA calculation where we relied on the valuers to have considered this management are not aware of any other detailed examination happening or reversion to WHE for answers.</p> <p>Management do review the valuations received and WHE provide explanations for movements</p>



# Your control environment and findings

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

*(New finding – not reported previously in our report dated 15 Sep 2022)*

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>The Council revalue its operational PPE portfolio on a 5 year rolling basis and revalued a significant portion of its portfolio in for the FY 19/20. Accordingly, the Council has subsequently created a schedule of assets to revalue over the 5 year period from FY19/20 on this rolling basis.</p> <p>However, we noted some of the assets were not revalued within a class. CIPFA/IAS16 requires that if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.</p> <p>The effect of those as calculated were immaterial for this year and therefore no proposed adjustment was raised. However, it could have been material if there were more such assets or if they were of high value.</p>	2022 Medium Control activities	We recommend that management should ensure that all the assets are included in the scope of the valuation within respective class.	We revalued all assets in 2019-20 to bring assets into line and then a new schedule was established. I believe assets are revalued by asset class as per the schedule. The identification of operational PPE that wasn't revalued was because they were not scheduled to be revalued and not because of Audit findings

# Your control environment and findings

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

*(New finding – not reported previously in our report dated 15 Sep 2022)*

---

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>During the year, we noted one of the GL balance (92699) in debtors does not agree with the subledger breakdown. Management is unsure about the difference.</p> <p>Accordingly, we have proposed the adjustments in respect of this.</p>	<p>2022 Medium Control activities</p>	<p>We recommend management should ensure periodically that the GL balances reconcile with the breakdown/subledger.</p>	<p>Agreed and noted for future actions.</p>

---

# Your control environment and findings

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

*(New finding – not reported previously in our report dated 15 Sep 2022)*

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
In respect of the pension liability, the Employer was aware of the Goodwin case but has not allowed for any additional costs as a result of the ruling for the year ending 31 March 2021. Also, an allowance was not made for the year ending 31 March 2020 on the basis of minutes from the LGPS advisory board that the government is not conceding the Goodwin case. For a typical LGPS employer, we understand that the estimated Goodwin impact could be between 0.0% and 0.2% of the DBO (i.e. up to £300k). Hence, we propose an adjustment to reflect this.	2022 Medium Control activities	We recommend management ensure all the necessary provisions are made based on the latest information available and they should challenge the pension report to ensure its reasonableness.	The Pensions report is already robustly challenged to test for reasonableness. As acknowledged in the narrative the impact could be 0.0% and would not require any adjustment. Any adjustment is not deemed to be material.

# 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).

	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		£608k	(£608k)		
Pension liabilities adjustment in respect of Goodwin case		(£300k)	£300k		
Application of Valuer's recommendation on operational assets not revalued		£79k	(£79k)		
Difference between GL and debtors ledger which management cannot substantiate	(£233k)	£233k			
<b>Misstatements identified in prior years</b>					
Adjustment in valuation of Quadrant House		£82k	(£82k)		
<b>Aggregation of misstatements individually &lt; £816k</b>					
<b>Total</b>		<b>(£151k)</b>	<b>£620k</b>	<b>(£469k)</b>	

# Audit adjustments

## Disclosures

### **Disclosure misstatements**

The following uncorrected disclosure 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).

---

#### Disclosure

---

As part of review of financial statements we noted the following disclosures were missing which are required by the Code, however, not disclosed by the Council:

- Defined benefit obligation disclosures as mentioned in Code paragraph in 6.4.3.45;  
*(Including maturity profile of the obligation and maturity analysis of benefit payments)*
  - HRA vacant possession disclosures as mentioned in the Code paragraph in 3.5.5.1;  
*(Including an explanation that the vacant possession value and balance sheet value of dwellings within the HRA show the economic cost of providing council housing at less than market rents)*
-



This document is confidential and it is not to be copied or made available to any other party. Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.