



Tandridge District Council

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

Issued on 15 February 2023

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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 and updated report dated 25 Nov 2022. The scope of our audit is set out within our planning report presented to the Committee in March 2021.

Status as reported in our ISA260 letter issued on 15 Sep 2022

We outlined in our report dated 15 Sep 2022 and updated report dated 25 Nov 2022 that our audit was at an advanced stage but remained ongoing. Key outstanding matters were listed 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.

Status update

We like to update you on the progress of the open items which are as follows:

Collection fund

- Due to system limitation a number of reports were unable to be provided in order for us to complete detailed testing. As a result we have looked into alternative audit procedures in order to gain assurance over the collection fund balance. Since the previous meeting progress has been made in this area. In order to finalise the audit of this area it was identified that support is needed from a collection fund expert who completed this piece of work for the Council in relation to the 31 March 2021 year end. The finance team have completed this consultation and are in the process of preparing additional working papers for audit. We will complete our work on this balance as soon as possible once this evidence is available. This relates to a S31 relief which is presented net with business rates income, thereby reducing the overall balance by £12m compared to the prior year. In addition, we are looking to confirm the nature of the collection fund balances included within the Tandridge balance sheet and why they are valid debtors and creditors for the Council. We are also discussing with management the presentation of the debtor and creditor balances in the Council balance sheet, which may also be affected.

Items previously completed and has now been reviewed – subject to final resolution of queries

- journals testing (awaiting support from management for final queries);
- Creditors (awaiting support from management for final queries);
- Collection fund (awaiting support from management for final queries);
- Call and cast of the financial statements (awaiting resolution of PY call and cast errors);
- Council assessment of credit risk in line with IFRS 9;
- Conclusion on property valuation; and
- Conclusion on the pension liability and assumption.

Audit status and outstanding information

The key messages in this report (continued)

Status as reported in our ISA260 letter issued on 15 Sep 2022

Status update

Items completed subject to final review

- we have recently received an updated draft of the financial statements after updating the issues noted by our specialised team review in respect of consistency of the financial statements and responding to the comments raised during our audit; and
- We have completed our internal quality assurance procedures, subject to review of the recently updated accounts to ensure all feedback has been appropriately addressed.

Other open items

- value for money;
 - evidence to ensure old debtor balances (selected) are provided for;
 - conclusion on disclosure issues regarding capital creditor and liquidity risk.
 - one internal control reports from fund manager;
 - receipt of signed management representation letter; and
 - our review of events since 31 March 2021 through to signing (complete to date).
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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 management to evaluate unadjusted misstatements and determine whether the Council's financial statements need to be adjusted.</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)

(reported previously in our report dated 25 Nov 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)

(reported previously in our report dated 25 Nov 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)

(deficiency updated from previous report dated 25 Nov 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). One of the main instance is valuer assumed a remaining useful life (RUL) of 50-54 years for all properties without consideration of the condition, age and life span of the individual properties. They have not fully explained how they estimated the RUL of the key components of the properties or provided details of the evidence considered in arriving to their conclusion. For the properties that had been selected for review by us, we would expect the range of RUL's to be greater in order to represent their differing ages, designs, construction and uses, as well as any subsequent modernisation or refurbishment of the buildings, plant and machinery.</p> <p>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> <p>Awaiting management response regarding RUL.</p>

Your control environment and findings

Control deficiencies and areas for management focus (continued)

(reported previously in our report dated 25 Nov 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)

(reported previously in our report dated 25 Nov 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)

(reported previously in our report dated 25 Nov 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.

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 or 25 Nov 2022)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>As part of our journal entries testing, we noted 4 journals of over 170 lines with inadequate/unclear wording describing the purpose of these entries.</p> <p>There may be multiple entries of the same transactions if journals are not properly/clearly described.</p> <p>Additionally, fraud risk is heightened as inappropriate/unapproved transactions may be masked with unclear descriptions.</p>	2022 Medium Control activities	<p>Management should ensure that description of all journal entries are clear enough to describe the nature of transactions being posted.</p> <p>In addition, journals should be split to the individual level and management should avoid batching multiple journal as one. As more concise journals would make it easier for internal reviews.</p>	Awaiting management response.

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 or 25 Nov 2022)

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
<p>As part of review of the aged debtors we noted that a total of £62,544 debtor balance has been outstanding for over 5 years. Upon inquiry from the management they presume that these balances would have already been provided for and part of the year end provision computation. However, no substantial evidence can be provided to precisely evidence that these debtor balances are included in the provision calculation.</p> <p>In the absence of the any substantial evidence, we proposed to provide these balances.</p>	<p>2022 Medium Control activities</p>	<p>In absence of the provision breakdown which reconcile back to debtor, there is a risk that management may be holding debtors that are not recoverable in their books.</p> <p>Management should develop a mechanism whereby they can identify specifically which debtors balances are provided to ensure that adequate provision is made in the books.</p>	<p>Awaiting management response.</p>

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
Misstatements identified in current year					
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			
Provision on long outstanding debt	£63k	(£63k)			
Misstatements identified in prior years					
Adjustment in valuation of Quadrant House	£82k		(£82k)		
Aggregation of misstatements individually < £816k					
Total	(£88k)	£557k	(£469k)		

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)
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