

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TANDRIDGE DISTRICT COUNCIL

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Tandridge District Council ('the Authority') and its subsidiaries ('the group'):

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's and the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We have audited the financial statements which comprise:

- the group and Authority Movement in Reserves Statements;
- the group and Authority Comprehensive Income and Expenditure Statements;
- the group and Authority Balance Sheets;
- the group and Authority Cash Flow Statements;
- the Housing Revenue Account Income and Expenditure Statement;
- the Movement on the Housing Revenue Account Statement including related notes;
- the Collection Fund including related notes; and
- the related notes 1 to 39.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice, the Local Audit and Accountability Act 2014 and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - material uncertainty related to property valuations

We draw attention to note 4, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic which they consider have persisted for some of the Council's retail properties and specific trading related assets and sectors such as Car Parks. As noted by the Council's external valuer, the pandemic has resulted in an absence of relevant or sufficient market evidence on which to base their judgements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

The going concern basis of accounting for the group and the Authority is adopted in consideration of the requirements set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Chief Financial Officer's responsibilities

As explained more fully in the Chief Financial Officer's responsibilities statement, the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the group and the Authority will continue in operational existence for the foreseeable future.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations, including fraud

We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which our procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

We considered the nature of the group and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, and the head of legal about their own identification and assessment of the risks of non-compliance with laws and regulations.

We obtained an understanding of the legal and regulatory framework that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Finance Act 2012 and Local Government and Housing Act 1989.
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. This included relevant employment legislation.

We discussed among the audit engagement team including relevant internal specialists such as valuations, pensions and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

- **Completeness of liabilities:** In order to test the completeness of liabilities pinpointed to accruals we obtained an understanding of the key controls in place in relation to completeness of expenditure and accruals and performed the testing for unrecorded liabilities based on post year end activity.
- **Recognition of Government Grants relating to COVID:** In order to test the completeness and accuracy of the agency arrangement disclosures we obtained an understanding of the key

controls in place and tested a sample of funding for Covid-19 grants and confirmed these have been recognised in accordance with any conditions applicable.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Matters on which we are required to report by exception

Use of resources

Under the Code of Audit Practice and the Local Audit and Accountability Act 2014, we are required to report to you if we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

On 4 April 2023 we reported to the council a significant weakness in the Authority's governance arrangements and arrangements to secure financial sustainability. The significant weaknesses reported were:

- We note from our discussions with management that at the beginning of the period there were weaknesses in management's understanding of overspend compared to budget and deviations from plan were not reliably understood.
- In addition to the issues identified with budget monitoring, there are weaknesses in how the body approaches and carries out its annual budget setting process which resulted in an unplanned and unmitigated cost pressure of £920,500 in the year. As a result of this Grant Thornton completed a forensic review and highlighted a number of recommendations as set out in their Report on the forensic review and fact-finding investigation into a potential budget gap for 2020/21 and its implications for 2021/22.
- 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. His findings include weakness in the processes and controls in place around a number of areas including (but not limited to) grant registers, information governance, treasury management and IT asset management.

These issues provide evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control. Throughout the period, the Council has continued to implement its action plan in response to the findings of the Centre for Public Scrutiny Governance report received in the year. Whilst we acknowledge progress has been made, there were significant weaknesses in governance arrangements during the year under audit.

Our recommendations for improvement include:

- We recommend that the council continue to embed the improved reporting and monitoring of budget variances so that business decisions can be based upon high quality data.
- We recommend that the Council implement the proposed responses to the findings identified in the Grant Thornton forensic review and fact-finding report commissioned to understand the circumstances of the surrounding the error in the budget setting process.
- We recommend that the Council ensures that all previously approved budgets are lawful in light of the budgeting gap noted above and that all appropriate action has been taken.
- We recommend that management implement the agreed responses to the findings of its internal auditor. In addition, we recommend that management complete a detailed review of key controls supporting the maintenance of financial records and the production of their financial statements. Management should undertake regular governance reviews to ensure that the governance arrangements are meeting the needs of the Council.

Our work in respect of the Authority's arrangements is not complete at the date of our report on the financial statements. We will report the outcome of our work on the Authority's arrangements and include any additional exception reporting in respect of significant weaknesses in our audit completion certificate and our separate Auditor's Annual Report. We are satisfied that the remaining work is unlikely to have a material impact on the financial statements.

Respective responsibilities relating to the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under the Code of Audit Practice and Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2021, as to whether the Authority had proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Authority a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021 by the time of the issue of our audit report. Other findings from our work, including our commentary on the Authority's arrangements, will be reported in our separate Auditor's Annual Report.

Reports in the public interest or to the regulator

The Code of Audit Practice also requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

DELAY IN CERTIFICATION OF COMPLETION OF THE AUDIT

We cannot formally conclude the audit and issue an audit certificate until we have completed our work in respect of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (as reported in the Matters on which we are required to report by exception – Use of resources section of our report). We are satisfied that our remaining work in this area is unlikely to have a material impact on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.



Michelle Hopton (Key Audit Partner)
For and on behalf of Deloitte LLP
Bristol, United Kingdom
25 May 2023