BOROUGH OF REIGATE AND BANSTEAD

EXECUTIVE
18 July 2018

ADDENDUM TO AGENDA

Agenda Item 6

REPORT FROM THE EXTERNAL AUDITORS ON THE 2018/19 STATEMENT OF ACCOUNTS (ISA 260 REPORT)

The report from the external auditors (ISA 260) on the 2018/19 audit (Annex 1 to the report of the Head of Finance and Assets) is attached.

Deloitte.

Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

Agenda Item 6

Reigate & Banstead Borough Council

Update report to the Executive Committee on the audit for the year ended 31 March 2019

For discussion at the meeting on 18 July 2019

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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 an update report to the Executive Committee (the Committee) of Reigate and Banstead Borough Council (the Council) for the 2019 audit. Our audit work is on-going, and we will issue an updated report following finalisation of the outstanding matters detailed below. The scope of our audit was set out within our planning report presented to the committee in April 2019.

Status of the audit	Our audit work is on-going and will not be completed prior to the 18 July 2019. We are continuing to work towards completion of the audit prior to the 31 July statutory deadline. The finalisation of our audit is dependent upon: • completion of work on creditors and accruals; • completion of work on property valuations, including responses from the Council's valuer on issues arising; • update of the pension liability and disclosures for the impact of the McCloud judgement; • receipt and review of finalised financial statements, including consistency checks and tie back to underlying documentation; • Completion of work on journals • receipt of outstanding items on miscellaneous other areas of testing; • receipt of bank confirmation letter from Lloyds Bank; • receipt of information from Pension Fund auditors confirming procedures completed in their audit; • completion of internal quality assurance procedures; • receipt of signed management representation letter; and • our review of events since 31 March 2019 through to signing. We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report. We will provide an oral update to the committee in the meeting. Our housing benefit subsidy assurance work will be completed over the summer.

Conclusions from our testing	• The key judgements in the audit process related to
	  • The assumptions made in completion of the land and buildings revaluation;
	  • The assumptions used in valuing the Council's defined benefit pension liability.
	• We have set out a summary of misstatements and disclosure deficiencies identified to date in an appendix to this report. Uncorrected misstatements total £0.5m. Corrected misstatements identified to date reduce the surplus for the year and net assets by £1.6m, reduce gross income and gross expenditure by a net £5.9m, and increase gross debtors and creditors by £2.1m. As our audit work is ongoing, further misstatements may be identified through the completion of our remaining work.
	• We have not identified any matters to date that, subject to satisfactory resolution of the outstanding matters noted above, would affect our audit opinion.

Introduction

The key messages in this report (continued)

Financial sustainability and Value for Money	• We considered arrangements around the Council's investment in properties for rental income purposes. From our risk assessment, we did not identify any significant risks in respect of the Council's governance arrangements around the transactions. The Public Accounts Committee and National Audit Office have raised issues over the longer terms risks to council finances and services from commercial investments, which is likely to result in increased scrutiny in this area in future. • We do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
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. • The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. • We have suggested a number of minor changes to management for consideration.
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. • We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.

Ben Sheriff
Audit Lead

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment

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

Scoping We have performed our risk assessment in line with the Code of Audit Practice issued by the NAO.

We will not scope out any significant items or items that would have a material impact on the financial statements. The only significant component of the Group is the Council. We have considered the investment property balance in Greensand Holdings Limited as part of property valuation testing

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out on pages 12-17 of this report.

Determine materiality

When planning our audit we set our group materiality at £2.2m based on approximately 2% of prior year gross expenditure and council materiality at £2m. We updated our group materiality assessment based on year-end figures to £2m. This represents 2.1% of gross expenditure, 2.0% of gross income, 1.2% of net assets and 0.7% of total assets. We set council materiality at £1.98m. We report to you in this paper all misstatements above £99k.

Significant risk assessment

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

Conclude on significant risk areas

We draw to the Committee's attention our conclusions on the significant audit risks. In particular the Committee must satisfy themselves that management's judgements in relation to going concern are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report and unmodified value for money conclusion.

Significant risks

Completeness of Expenditure and Accruals

Risk identified

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals.

For 2018/19, the Council approved a budget with a net cost of service of £17.7m. As at the end of the year, the Council reported a net underspend of £1.6m. Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals and provisions.

Deloitte response

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

- We obtained an understanding of and tested the design and implementation of the key controls in place in relation to recording completeness of expenditure and accruals;
- We performed focused testing in relation to the completeness of expenditure including a detailed review of expenditure and accruals;
- We have performed testing for unrecorded liabilities based on payments made and expenses recorded in the period after year end up to the end of June
- As part of the above focused testing, we challenged the assumptions made in relation to year-end accruals; and
- In addition, we have reviewed significant movements in accruals year on year and evaluated for consistency with our understanding of the Council and, where considered appropriate, corroborated the reason for movement to supporting information.

Deloitte view

Our work is ongoing, however have not identified any exceptions for the items where we have received full information.

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Significant risks (continued)

Management override of controls

Risk identified

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

Deloitte response

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

- The Council's results throughout the year were projecting underspends in operational areas. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

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

Significant and unusual transactions

We have noted that the Council has purchased two properties, the Regent House and Redhill Distribution centre at a total cost of £32.2m for redevelopment and rental income generation.

Journals

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

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

While our work in this area is on-going, no issues have been noted to date.

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.

Property and pensions estimates are discussed on the following pages. Other significant estimates include:

- The NNDR appeals provision, of which the council's share is £717k (31 March 2018 £2.0m). The movement in the provision reflects a reduction in the rate of appeals.
- The allowance for impairment of over payments/receivables: Housing benefit overpayments of £1.9m on a balance of £2.5m (2017-18 £1.8m on £2.5m); Council Tax £2.0m on £3.6m (2017-18 £2.0m on £3.7m); and NNDR of £0.2m on £0.5m (2017-18 £0.2m on £0.7m). These have been provided for based on historic experience and the change in the age of the balances and appear reasonable.

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

Deloitte view

Our work is ongoing, however we have not identified any exceptions for the items where we have received full information.

Significant risks (continued)

Valuation of property assets

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.

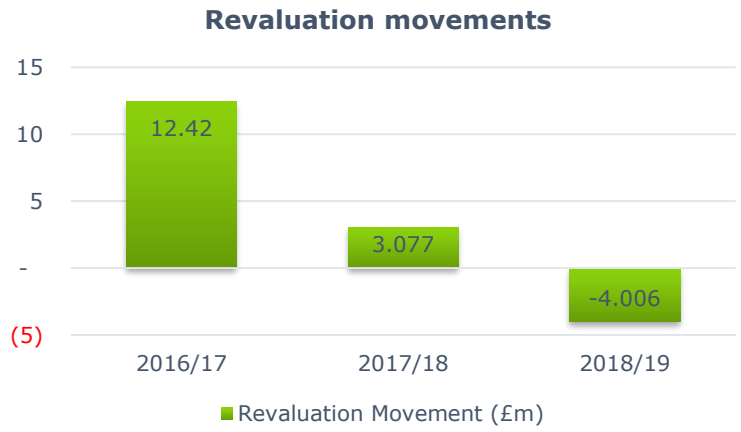
Key judgements and our challenge of them

Per the draft financial statement, the Council held £110.4m of property assets at 31 March 2019, an increase of £1.2m, including £1.2m revaluation loss and £2.5m of additions. The Council also held £98.4m of investment property assets at 31 March 2019, an increase of £32.3m, including £2.8m revaluation loss and £35.1m of additions.

All properties were revalued in the year. Desktop revaluations are performed annually as at 31st December, with a final review at year-end. There have been no significant changes to the valuation approach in year.

Due to prevailing market conditions, there was an overall revaluation loss in the year of £4m.

Below is an analysis of the revaluation movements over three years:



Deloitte response

- We tested the design and implementation of key controls in place around the property valuation, including how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation.
- We obtained an understanding of approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We tested a sample of inputs to the detail. valuation working papers and are awaiting responses on the movements.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets including considering the assumptions made of movements between the valuation being performed in December 2018 and the year-end.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check correctly recorded.

Deloitte view

The work of our Deloitte Real Estate team is on-going, as we are awaiting responses on a number of queries from the Council's valuers. Queries to the valuer has identified an error in the valuation report, which management and The valuer are quantifying and investigating to confirm this is an isolated error.

Other matters

Defined benefits pension scheme

Background

The Council participates in the LPFA Local Government Pension Scheme, administered by Surrey Council.

The net pension liability has increased from £71.1m at 31 March 2018 to £79.2m at 31 March 2019 primarily as a result of slight increase in the discount rates and movements in asset values.

The Council's pension liability is affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. In late June 2019, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability.

The Council's actuary has calculated the impact, which will be updated in the final financial statements.

Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table opposite.
- We reviewed the disclosures within the accounts against the Code.

- We have requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary, including checking whether any significant changes in membership data were communicated to the actuary
- We will assess the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements as at 31 March 2018 and performed analytic procedures to test the asset value and movements for the year.
- When received, we will review and challenge the calculation of the impact of the McCloud case on pension liabilities.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.36	Reasonable
Retail Price Index (RPI) Inflation rate (% p.a.)	3.40	3.05	Prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.50	2.25	Slightly Prudent
Salary increase (% p.a.) (over RPI inflation)	1.1	Council specific	Prudent
Pension increase in payment (% p.a.)	2.50	2.25	Reasonable, slightly prudent
Pension increase in deferment (% p.a.)	2.50	2.25	Reasonable, slightly prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22.50	22.50	Reasonable
Mortality - Life expectancy of a female pensioner from age 65 (currently aged 45)	24.60	24.60	Reasonable

Deloitte view

Our work is ongoing.

The draft financial statements did not include a value for the impact of the McCloud case (in common with other organisations). Following the conclusion of litigation in June, the impact of this should be included in the pension liability. The Council's actuary has calculated the impact, and Council will update this in the financial statements.

Other matters (continued)
Implementation of IFRS 9 and IFRS 15

Matter identified

The Council is required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, the Council is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves.

The scope of IFRS 9 and IFRS 15 is limited to balances arising on "exchange" transactions. Non-exchange debtors, such as council tax and rates/levies etc. are outside of the scope of IFRS 9 and IFRS 15.

The Council has posted no retrospective adjustments with regard to IFRS 9 or IFRS 15 as there is no material impact on the financial statements.

Response

Management held discussions regarding the accounting impact of the new standards for the period and determined that the impact is immaterial.

The key element impacted by IFRS 9 is the accounting for the bad debt provision for debtors, which must move to a methodology of expected credit losses. The majority of the Council's debtors are non-exchange debtors and not affected by this. Whilst the provision as a whole is not material, we have reviewed the revised calculation methodology and considered the assumptions in light of past experience. We have concluded that IFRS 9 has been applied appropriately and no further material adjustment is needed.

Another key elements impacted by IFRS 9 is the credit risk associated with the trading company investments (loans), resulting in an expected credit loss of £185k in 2018/19. We have reviewed the revised calculation methodology and consider this to be reasonable. No historic adjustment has been made as management consider the provision to arise on movements in year. While this is a matter of judgement, this is not material and we have not proposed any adjustments.

In addition, the presentation and classification of the Council's financial instruments is affected, in particular investments in trading company investments.

Regarding IFRS 15, officers were satisfied that no transitional adjustments would be required as the Council's larger sources of income including grant income, rents and taxation are outside of the scope of the standard and in other income streams which fall within the scope of IFRS 15 there are not material performance obligations which span the year end. This is consistent with a general expectation for local authorities which have not entered into material unusual transactions. The statement of accounting policies was not updated to bring the description of the Council's policy for the recognition of income into line with the requirements of IFRS 15.

IFRS 15 introduces new disclosures around the amount of income, deferred income and receivables which are accounted for under the standard. The Council's accounts template was not updated to include these new disclosures and as a result the financial statements do not fully comply with the Code in this respect. We have requested disclosures be added in the final financial statements.

We have reviewed and challenged the disclosures made in the financial statements which have resulted in changes to the financial instrument disclosures to align to IFRS 9 categories.

Deloitte view

Managements conclusion that the new accounting standards do not have a material impact for the Council is consistent with the conclusion of other local authorities and the absence of unusual transactions or income streams which may require a different accounting treatment.

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

Background

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

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report. We did not identify any further significant risks from our remaining risk assessment procedures.

As part of our risk assessment, we have considered information from: a combination of:

- we considered the appropriateness of the governance arrangements and due diligence performed and external advice taken around the principal property investments in year;
- we discussed the Council's arrangements with Pat Main (interim section 151 officer) and Helen Stocker (Deputy Section 151 Officer)
- We have reviewed the internal audit reports;
- we reviewed the Council's draft Narrative Report, Annual Governance Statement and relevant Council papers and minutes;
- we considered the Council's financial results for the year and the assumptions in the budget for future years;
- we considered matters identified by the National Audit Office as potential value for money risks for Councils for 2018/19, in particular decisions around commercialisation;
- review of the Council's Brexit preparations;
- consideration of issues identified through audit of the financial statements; and
- consideration of the Council's results, including benchmarking of actual performance.

Based upon the work performed in our risk assessment, we did not identify any significant audit risks and is consistent with our Planning Report.

Deloitte view

No significant risk in respect of VFM was identified during our initial risk assessment. We updated our initial risk assessment in June 2019 for outturn information, review of internal audit reports, review of draft annual governance statement and review of the budget and MTFS. No significant risk was identified based on this assessments and based on the status of the current status of our audit, we will issue an unmodified opinion.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information. Our IT team have noted separate IT observations which are being confirmed with the Head of IT and which we have agreed we will report separately when finalised.

Area	Observation	Priority
Quality of draft financial statements	While management have taken actions to update the financial statements for accounting and disclosure changes required this year for IFRS 9 and IFRS 15, with relatively more preparation than we have seen in a number of other local authorities, nonetheless the initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard. Issues noted included: • Accounts disclosures not updated for 2018/19 changes in the Code; • Inconsistencies between notes and primary statements; • "Negative" balances due to inclusion of £2.1m of debtors within creditors; • Accounts disclosures and accounting policies only partly updated for the adoption of IFRS 9 and IFRS 15; and • Other issues requiring adjustment to financial statements Together these indicate scope for improvement in the financial reporting and close process. We recommend the Council review the year-end reporting and close process, including, including whether there are opportunities for improvement in how the council undertakes; • preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council; • documented and reviewed use of CIPFA disclosure checklists; • documented and reviewed internal checks of arithmetic accuracy and internal consistency; • completion of the CIPFA "pre-audit checks on draft year-end accounts" checklist; and • documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.	
New accounting standards – IFRS 9 and 15	While managements has taken greater steps to prepare for IFRS 9 and 15 than many other bodies, including the preparation of papers and performing provisioning assessment, we highlight that this has been done as a year-end exercise to assess and calculate the impact of GAAP differences, without embedding into the Council's underlying systems, processes and controls. This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected. We recommend the Council review how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 in particular in respect of investments in Trading companies, and the process to be followed in assessing new and unusual transactions.	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
New accounting standards – IFRS 9 and 15	While managements has taken greater steps to prepare for IFRS 9 and 15 than many other bodies, including the preparation of papers and performing provisioning assessment, we highlight that this has been done as a year-end exercise to assess and calculate the impact of GAAP differences, without embedding into the Council's underlying systems, processes and controls. This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected. We recommend the Council review how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 in particular in respect of investments in Trading companies, and the process to be followed in assessing new and unusual transactions.	
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage to allow for financial reporting timetables to be met. We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. Managements have completed preparation work and we recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	
Wrong posting to the fixed asset register	During our work on the Council's properties, we noted that as at year end 31 March 17, the revaluation adjustments of assets of the Victoria Road Car Park was wrongly posted to another assets by an account officer thereby understating the value of one assets and overstating another. This has remained in the fixed asset register without being detected over a period of 2 years. This is an evidence of lack of appropriate controls over the review of journals before posting into the system. This represent a risk that the source information used in preparing the financial statements may maybe materially misstated due to posting errors. We recommend for managements to put in place controls, to ensure a second review of all valuation entries, including allocation by asset, before they are posted into system.	
Grant Income register	We have identified as part of our testing that the Council does not maintain grant register that holds the details of all grants. This made it difficult to access the completeness and accuracy of the grant information. We recommend that managements prepares and maintains a grant register and put in place procedures to ensure its accuracy and completeness.	

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Capital and investment strategies and borrowing for investment	• CIPFA's updated Prudential Code for Capital Finance in Local Authorities and Treasury Management Code, and the Ministry of Housing, Communities and Local Government's Investment Code apply for 2018/19. These require a formally reported capital strategy, including a view of the authority's approach to borrowing, investment and treasury management, with a focus on risk management. MHCLG's Statutory Investment Guidance applies from 1 April 2018 and requires an annual investment strategy (which can be incorporated into the capital strategy) and prohibits borrowing "in advance of need" to profit from investment of sums borrowed, including from solely commercial investment in investment properties. The strategy must set out the reasons for non-compliance and associated risk management arrangements if there is borrowing in advance of need. • We recognise the Council has undertaken a commercial governance review in year and has been putting in place enhanced governance around these areas • The Council did not publish a capital and investment strategy for 2018/19. The 2019/20 strategy was reported to the Overview and Scrutiny Committee in February 2019 and Executive in March 2019. • Although property investment is covered in the capital and investment strategy, there is currently limited discussion of risk management arrangements (albeit with a plan for developing these elements of the strategy). is planned to be covered in an upcoming Commercial Investment Strategy). We recommend expanding the discussion of risk management in the strategy. • Should the Council borrow for investment, then it will be necessary to consider whether this is purely commercial and require disclosure in the capital and investment strategy together with details of the planned risk management strategy.	

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement..

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We note that there is scope for additional discussion of: • The Council's operational model, in particular in respect of increased investment; • Risks and opportunities; and • Outlook. 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.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review

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

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

What we don't report

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

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

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

The scope of our work

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

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

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

Deloitte LLP

Ben Sheriff

for and on behalf of Deloitte LLP

St Albans

18 July 2019

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). The figures below do not include the impact of the open issue in respect of property valuations, which management intend to correct once fully quantified.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	*Memo: Debit/ (credit) usable reserves £m*	If applicable, control deficiency identified
Misstatements identified in current year						
Credit balances included in Debtors	[1]		0.2 (0.2)			
Classification error of creditors in bank	[2]		0.3 (0.3)			
Total			-			

(1) The Debtor sub ledger balance included credit balances £495k of debit balances that should have been presented in debtors
(2) Subtractive reconciling items on the bank reconciliation are actually creditors balances at year end

Audit adjustments
Disclosures

Disclosure deficiencies

We have reviewed the accounts and annual report, and have passed several recommendations on these to management. Management has indicated their willingness to implement these recommendations, and therefore we do not expect there to be any uncorrected disclosure deficiencies.

We will provide an update after receipt and review of the updated financial statements.

Audit adjustments

Corrected misstatements

The following corrected 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). Corrected misstatements increase/(decrease) the surplus on the CIES by £1.6m, increase/(decrease) net assets by £1.6m, and increase/(decrease) usable reserves by £nil.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	If applicable, control deficiency identified
Overstatements of Investment property	[1]	1.6	(1.6)		Yes
Presentation of Comprehensive Income and Expenditure Statement	[2]	7.7 (7.7)			
Debit balances included in creditors	[3]		2.1 (2.1)		
Presentation of non domestic rates income and expenditure	[4]	1.8 (1.8)			
Total		**1.6**	**(1.6)**		

(1) The revaluation adjustments of Victoria Road Car Park was wrongly posted to the Horley Street scene. The 2016/17 revaluation was incorrectly posted, which resulted in a double-count on posting of this year's revaluation against the correct asset.

(2) Historically, some local authorities have presented the Comprehensive Income and Expenditure Statement on a "gross" basis, including internal recharges. The 2018/19 CIPFA Code explicitly states that this is not permitted, and the Expenditure and Funding Analysis is intended to provide segmental analysis rather than the Comprehensive Income and Expenditure Statement, which should be presented on a net basis. The current year and comparative financial statements

(3) The creditor note in the draft financial statements included £2.1m of debit balances that should have been presented in debtors.

(4) The non domestic rates income and expenditure figures were incorrectly netted down by £1.8m.

As communicated on page 8, managements intend to correct the error identified on the valuation report and that will be included in our final adjusted misstatements schedule.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

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

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Council or group.

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

Audit work performed:

In our planning we identified completeness of expenditure and accruals, valuation of property and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Executive Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been raised in relation to fraud or whistleblowing during our procedures.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with FRC's Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	Details of our scale fee for the audit have been set out on the next slide. We have incurred additional costs in respect of the issues identified during the audit, and on completion of the audit we will propose a fee variation at the agreed rates set out in the PSAA rate card shown on the next page. We have been appointed to perform the 2018/19 Housing Benefit testing, which will be performed over the summer. The fee for this work (assuming no extended testing required) is shown on the next page.
Non-audit services	In our opinion there are no inconsistencies between FRC's Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties

Independence and fees

	Planned £ (excl. VAT)
Code audit fee	37,585
Total audit	37,585
Fees for reporting on the housing benefit subsidy claim	14,000
Total assurance services	14,000
Total fees	**51,585**

As explained in our fee letter, our audit fee is based on assumptions about the scope of our work.

We have incurred additional costs compared to those assumed in the scale fee in addressing a number of issues including additional iterations of the financial statements.

We will calculate the additional costs incurred following completion of the audit for agreement with the Council and Public Sector Audit Appointments Limited. Additional time is charged using the following rate card:

	Rate per hour (£)
Partner/director	132
Senior manager/manager	73
Senior auditor	47
Other staff	36

Deloitte.

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