Addendum

Audit Committee

Dear Councillor,

Audit Committee - Thursday, 10 June 2021, 7.30 pm

I enclose, for consideration at the meeting of the Audit Committee to be held on Thursday, 10 June 2021 at 7.30 pm, the following reports which were unavailable when the agenda was published.

Mari Roberts-Wood
Interim Head of Paid Service

7. External Audit Plan 2021/22 (Pages 3 - 32)

To consider the External Audit Plan 2021/22.

For enquiries regarding this addendum;

Contact: 01737 276182

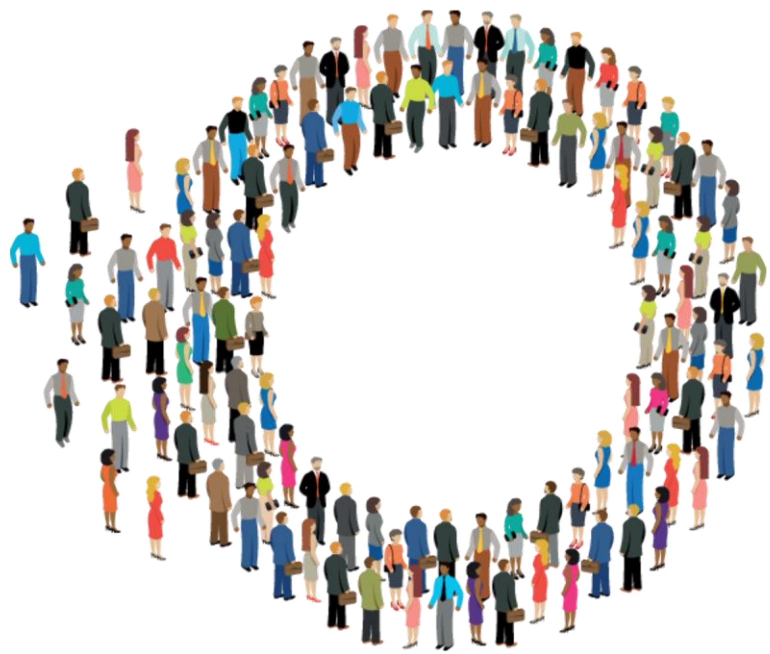
Email: democratic@reigate-banstead.gov.uk

Published 07 June 2021

This page is intentionally left blank

Deloitte.

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



Agenda Item 7

Reigate & Banstead Borough Council

Planning report to the Audit Committee on the audit for the year ended 31 March 2021

Issued 7 June 2021 for meeting on 10 June 2021

Deloitte Confidential: Government and Public Services

Contents

01 Planning report

4

02 Appendices

Agenda Item 7

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.

5

We have pleasure in presenting our planning report to the Audit Committee for the year ended 31 March 2021 audit. We would like to draw your attention to the key messages of this audit plan:

Audit Plan	We have updated our understanding of the Council including discussion with management and review of relevant documentation from across the Council. Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.
Significant Audit Risks	We have taken an initial view as to the significant audit risks the Council faces. These are: • Property valuations; • Accuracy and completeness of accruals; and • Management override of controls. Details of these risks are set out on pages 12 to 14.
Other Areas of Audit Focus	Other matters which we have not currently identified as significant audit risks for the 2020/21 audit, but which will be areas of audit focus (and whose risk we will be reassessed as more information becomes available), include: • Pension Liability; • Accounting and presentation of additional Covid-19 income and activities; and • Value for money. Details of these areas are set out on pages 15 to 17.

Agenda Item 7

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.

Regulatory Change	The National Audit Office has issued a revised Code of Audit Practice for 2020/21, and a revised approach to "Value for Money" work. This will move to a regime of narrative reporting in a new public "Annual Auditor's Report", which replaces the Annual Audit Letter. The audit approach reflects changes to International Standards on Auditing (UK) on going concern (ISA (UK) 570) and management estimates (ISA (UK) 540) effective for this year, Practice Note 10, effective for this year and the National Audit Office's Special Auditor Communication (SAC) which is intended to assist auditors in their assessment of going concern on audits of financial statements. IFRS 16, Leases, will apply from 2022/23, and will require disclosure in the 2021/22 financial statements of the expected impact on transition. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020/21 and 2021/22 for all local authorities to 30 September 2021. The deadline for the Annual Auditor's Report and associated VfM reporting for 2020/21 is three months after the issue of the financial statement audit opinion.
COVID-19	The COVID-19 pandemic has had a significant impact on the operations of all Council's. We have considered the impact on the Council in our initial risk assessment procedures, and have highlighted the main areas where the effects will be felt most. We have set out further detail regarding this matter on page 7 to 8.
Our Commitment to Quality	We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Ben Sheriff
Audit lead

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help fulfil your broader responsibilities

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

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Make recommendations as to the auditor appointment

- Implement a policy on use of the external auditor for non-audit services and approve if arise.

Integrity of reporting

- Make an impact assessment of key judgements and the level of management challenge.

- Review the external audit findings, key judgements and level of misstatements.

- Assess the quality and capacity of the internal team, their incentives and the need for supplementary skill sets

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy.

- Assess and advise the committee on the appropriateness of the Annual Governance Statement, including conclusion on value for money.

Internal controls and risks

- Review the internal control and risk management systems.

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

-Oversee the work of the Council's local counter fraud service.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Agenda Item 7

7

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

Covid-19 has been hugely impactful for local authorities including for Reigate & Banstead Borough Council, affecting not only existing activities, but leading to new categories of income and expenditure with accounting complexities in particular around income streams from central government.

The Council also has some major capital projects planned in relation to the redevelopment of Marketfield Way.

Scoping

Our audit scope follows the Code of Audit Practice issued by the NAO, which has been revised for 2020/21.

More detail is given on page 10. We will not scope out any significant items or items that would have a material impact on the financial statements.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.

Determine materiality

Given the complexities in determining the forecast income and expenditure for the year (as individual Covid-19 support schemes differ in whether the Council recognises the income received gross or net), we will assess materiality based on the draft financial statements.

Significant risk assessment

We have not identified any new significant audit risks. More detail is given on page 12 to 14.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of the Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

COVID-19 pandemic and its impact on our audit

COVID-19 pandemic and its impact on our audit	
Requirements	The COVID-19 pandemic had a significant impact on the 2019/20 audit process, despite impacting relatively late in the year. We would expect there to be guidance as we perform the audit on accounting and disclosure requirements for 2020/21, where the impact has been much more extensive on all organisations. A key element of this will be communicating risks and governance impacts in narrative reporting, consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments. Entity-specific explanations of the current and expected effects of COVID-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.
Actions	While there may be greater clarity as we perform the year end audit, we would expect the Council as part of their reporting to conduct a thorough assessment of the current and potential future effects of the COVID-19 pandemic including: • Consideration of the impact across the Council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position; • The scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); and • The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

9

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
We will consider the key impacts on the business such as: • Interruptions to service provision; • Unavailability of personnel; • Reductions in certain income streams such as parking and the waiver of Management fee and charges for outsourced leisure services; • Increases in income from central government funding; • The closure of facilities and premises.	In addition to the impact of new income and expenditure streams, including funding from central government, discussed on page 16, we have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next page including: • Principal risk disclosures; • Impact on property, plant and equipment; • Valuation of commercial or investment properties; • Impact on pension fund investment measurement and impairment; • Financial sustainability assessment; • Events after the reporting period and relevant disclosures; • Bad debts provision policy; • Narrative reporting; • Impairment of non-current assets; • Allowance for expected credit losses.	We will continue to assess the impact on the audit including: • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel.

Agenda Item 7

COVID-19 pandemic and its impact on our audit - (continued)

Impact on annual report and financial statements

Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. Valuation reports at March 2020 typically identified a need to consider potential impairments in future periods, and this year's valuations may reflect more significant movements. The Council will need to consider the approach to its valuation (including any changes as a result of the pandemic and consequent service and organisational changes on the "modern equivalent asset" assumed in valuations). The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.
Valuation of commercial or investment properties	Following the COVID-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needs to be reviewed against the conditions and assumptions at the measurement date. This will require additional consideration in our work on year-end valuations.
Expected credit losses	The Council will need to consider the level of provision required for expected credit losses under IFRS 9 and whether Covid-19 has had any impact on this.
Narrative and other reporting issues	The following areas will need to be considered by the Council: • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.
Accounting for Covid-19 response measures	One of the main elements of the response to Covid-19 which will have specific accounting considerations are the Covid-19 grants that the Council has received. In May CIPFA have now published guidance on accounting for Covid-19 grant income, and specific consideration and we expect the Council to consider these in accounting for all the grants received clearly outlining when you are acting as the principal or agent. See details set out on page 16.
Going concern assessment	Under the CIPFA Bulletin 05, the going concern assumption remains unchanged despite the impact of Covid-19 as local authority's services will continue to operate for the foreseeable future. However, it is recognised that while the going concern assumption in the Code remains in place, the Council also needs to report on the impact of financial pressures in the narrative report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures. It is also recognised that these reports will be vital following the impact of COVID-19 on local authority financial sustainability.
Events after the reporting period and relevant disclosures	Events are likely to continue to move swiftly, and the Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis.

An audit tailored to you

Focusing on your business and strategy

Description	Impact on our audit
Accounting standards – IFRS 16, Leases	Due to the impact of Covid-19, the implementation of IFRS 16 has been deferred for a further year to 2022/23. When implemented, it will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. For 2021/22, the Council will need to include disclosures on the expected impact of the standard, but not make any adjustments in the financial statements in respect of IFRS 16. However, many organisations have identified previously unidentified leases (or arrangements that contain a lease, such as service contracts) as part of their transition project, and so there may be some 2021/22 impact. Separate to the financial reporting impact, but potentially more critical to the Council going forward, budgets for 2022/23, particularly capital budgets, will need to reflect the impact of the new standard. We recommend that Council refresh their review of the impact of IFRS 16 early in the coming year, including calculating any adjustments that will be required as at 31 March 2022 for transition. We would suggest that the Audit Committee receive reporting in year from management on the implementation of the new standard, and we will report specifically on the findings from our audit work in this area.

New significant risk   Continuing significant risk   Non-significant risk

Scope of work and approach

We have four key areas of responsibility under the Audit Code

Agenda Item 7

12

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA UK") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the NAO. The Council will prepare its accounts under the Code of Practice on Local Council Accounting ("the Code") issued by CIPFA and Local Authority (Scotland) Accounts Authority Committee (LASAAC).

We are also required to issue separate report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts. Our fee quote assumes the Council remains below the NAO threshold for additional procedures.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the quality report, remuneration report and annual report and compare with other available information to ensure there are no material inconsistencies.

Value for Money conclusion

We are required to consider the arrangements that the Council has made securing financial resilience and economy, efficiency and effectiveness in its use of resources, if we identify any significant weaknesses to make recommendations, and to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Council's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Council's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This represents a significant increase on scope on previous years. The NAO and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. We will agree the fee change for this work with management once requirements are finalised.

Whole of Government Accounts

The Council is not expected to be in scope for audit work.

If the council is over the threshold when instructions from NAO are released then our work on the Whole of Government Accounts return is carried out in accordance with instructions and typically focuses on testing the consistency of the return with the Council's financial statements, together with the validity, accuracy and completeness of additional information about the Council's transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

Scope of work and approach – (continued)

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council completes the CIPFA Code checklist during drafting of their financial statements.

Group considerations

We have currently assessed the Council as the only significant component of the group.

We will understand and assess the non-significant subsidiaries and ventures of the Council, including analytical review of statutory accounts and or managements accounts. Our work will cover the below subsidiaries:

- Greensand Holdings Limited;
- Horley Business Park Development LLP;
- RBBC Limited; and
- Pathway for Care Limited.

RBBC Limited was subject to dissolution on 28th Feb 2020.

Our approach is designed to ensure we obtain the requisite level of assurance across the whole Group.

Significant audit risks
Property Valuation

Risk identified

The Council held £107.8m of property assets (other lands and buildings) and Heritage assets at 31 March 2019 which increased to £139.1m as at 31 March 2020. This was largely due to a net downward valuation of £4.6m, additions of £1.4m and transfer of £49.5m from investments property as a result of the asset re-categorisation carried out at the beginning of the year. Investments properties also held by the Council decreased from £95.0m at 31 March 2019 to £45.5m at 31 March 2020, due to a net revaluation loss of £164k, additions of £165k and the transfer stated above.

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council's land and buildings are revalued a minimum of every five years with a desktop revaluation carried out annually.

As a result of the valuation method, individual assets may not be revalued for up to four years and there is therefore a risk that the carrying value of those assets not included in the Council's revaluation process in the current year materially differ from the year end fair value.

In addition, given the material value of the assets there is a risk that the valuation assumptions which are judgemental in nature may be materially misstated.

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.

Our response

The Council's valuations are performed each year by Wilks Head & Eve. We will assess their qualifications, objectivity and experience and assess whether the valuation performed is consistent with accounting requirements and the Royal Institute of Chartered Surveyors "Red Book" valuation standards. We will evaluate the arrangements in place around the property valuation as part of the audit.

We will test the design and implementation of key controls in place around the property valuation and we will understand how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation. In addition, we will assess what valuation assumptions may have been made if there is a time lag between the valuation date and the year-end.

We will use our valuation specialists, Deloitte Real Estate to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's properties, including whether assets are "specialised" (and so valued on a Depreciated Replacement Cost basis) or not.

We will comment in our reporting upon the key assumptions used in the valuation. In particular, if any sites are valued on an alternative site basis we will challenge whether the assumptions made are consistent with the Council's strategy and have been considered and approved at an appropriate level within the Council.

We will test the inputs used in the valuation including the gross internal areas provided to the valuer, including testing a sample of measurements to check the accuracy of data.

We will consider the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements.

Significant Risks – (continued)

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 accruals. For 2020/21, the Council approved a budget with a net cost of service of £18.3m. As at quarter three, the Council reported a forecast underspend of £530k. 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.
Our response	• We will obtain an understanding of and test the design and implementation of the key controls in place in relation to recording completeness of expenditure and accruals. • We will perform focused testing in relation to the completeness of expenditure including a detailed review of accruals. • As part of this focused testing we will challenge any assumptions made in relation to year-end accruals; • We will also review expenses recorded in the final months of the year against previous trends to identify if there are any inconsistencies. • We will perform testing for unrecorded liabilities based on payments made and expenses recorded in the period after year end up to the date of May. • In addition we will review significant movements in accruals year on year and evaluate for consistency with our understanding of the Council and, where considered appropriate, test to supporting information.

Significant risks – (continued)
Management override of controls

Risk identified	In accordance with ISA 240 (UK and Ireland) 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. The key judgments in the financial statements are those which we have selected to be the significant audit risks and areas of audit interest: completeness of expenditure, valuation of the Council's estate and the pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will test the design and implementation of key controls in place around journal entries and management estimates; • We will risk assess journals and select items for detailed follow up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest; • We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting; • We will review accounting estimates for biases that could result in material misstatements due to fraud; • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment; and • We will use our Spotlight data analytics software to review ledger postings throughout the year, with focus on identifying any manual adjustments to revenue at the period end, or reversing entries that could be indicative of manipulation and management override.

Other areas of audit focus

Pension liability valuation

Risk identified	The Council are part of the Local Government Pension Scheme administered by Surrey County Council. The Council recognised a pension liability of £79.2m at 31 March 2019 which increased to £80.1m as at 31 March 2020. The Code requires that Council's year end carrying value should reflect the appropriate fair value at that date. Also pension assumptions are a complex and judgemental area and the calculation is reliant on accurate membership data provided to the actuary. Hymans Robertson act as the Council's expert actuary, who produce a report outlining the liability and disclosures required for each council.
Our response	• We will carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data, assets and liabilities) using a developed methodology which takes into account factors such as an assessment of the actuary. • We will also liaise with the scheme auditor on the results of their audit procedures on the scheme as a whole. • We will consider the make-up of the pension assets and the extent to which the asset types have been valued based on observable market prices or using estimation and judgement in the valuation and consider the extent of uncertainty in the asset valuation and the impact on our approach. • We scope our work, including the nature and extent of our actuarial specialist's involvement, in a way which responds to this detailed risk assessment. Should our risk assessment change our overall audit approach in respect of testing pensions, we will notify the Committee. • We will consider how the valuation takes into account the recent discrimination rulings (McCloud and Goodwin), including the consultation on changes to the LGPS scheme to address the McCloud ruling, and whether adequately reflected in the valuation. • We will review the disclosure based on the IAS 19 report issued to the Council by the actuary and we will assess the competence and objectivity of the work of the actuary.

Other areas of audit focus – (continued)

Accounting and presentation of additional Covid-19 income and activities

Risk identified	Covid-19 continues to have a significant impact on the activities and financial statements (and consequently audit) of local authorities. At one level, there has been significant upheaval to Council finances through 2020/21 as bodies have had to adjust spend to respond to the pandemic and as additional funding initiatives and grants have been announced. This will require additional audit work to risk assess and test these new areas of income and expenditure, many of which diverge from original budgets. The most significant areas is the various funding streams for the current year, which will have involved in some cases new processes or controls for the year, and require individual consideration of their accounting treatments (such as whether they are accounted for gross or net, timing of recognition, etc). Examples include: - Business Support Grant Funding from the Department of Business, Energy and Industrial Strategy; - Covid-19 Council Tax Hardship Fund; - Ministry of Housing, Communities and Local Government (MHCLG) compensation for council tax and business rate losses; and - the Sales, fees and charges compensation scheme.
Our response	• For the business support grants (the most material activity stream), we will obtain an understanding of the process for the administration of these grants to determine our risk assessment. • The Council has prepared an assessment of Covid-19 grant income and the proposed treatments. We will evaluate the proposed accounting treatment and any associated judgements or estimates for these schemes, considering the terms of funding, relevant accounting standards, and CIPFA guidance. • We will review any relevant findings from internal audit as part of our risk assessment. • We will assess the risk and level of testing of individual grants and, where relevant, related expenditure dependent upon the degree of complexity and judgement associated with their accounting, how they impact the financial statements, and any issues identified in relation to controls or processes over the schemes. • We will review the presentation and disclosure of income and expenditure related to these schemes for compliance with the requirements of the CIPFA Code and for overall clarity and adequacy of disclosure.

Other areas of audit focus – (continued)
Value for Money

There is a new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities. This introduces significant changes to the requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources). The NAO issued Auditor Guidance Note 03 (AGN03), Value for Money, in October 2020 setting out more detailed guidance on how the new requirements should be implemented. Key features of the requirements include:

For all bodies, the auditor will need to provide a public narrative commentary against the Value for Money criteria in a new "Auditor's Annual Report" (AAR), to be issued alongside the audit opinion for Local Authorities. This commentary will include a summary against each of the reporting criteria, setting out the work undertaken, and judgements and local context relevant to the findings. This commentary needs to be supported by more extensive work to understand the body's arrangements to secure economy, efficiency and effectiveness, to support this commentary and to identify whether there are risks of significant weaknesses in arrangements.

If a risk of significant weaknesses is identified, additional work is required to determine whether there are significant weaknesses and to make relevant recommendations if this is the case on a timely basis, which will also be explained in the Auditor's Annual Report. The AAR will also include follow up on previous recommendations in respect of significant weaknesses and whether they've been implemented satisfactorily. The audit opinion will continue to include reporting by exception, though now this will be where the auditor has identified a significant weakness in arrangements rather than an overall conclusion on arrangements. The three criteria that would be considered in Value for Money work are be:

Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services;

Governance: How the body ensures that it makes informed decisions and properly manages its risks; and

Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

We will:

- Undertake Value for Money (VfM) planning work under the revised procedures.
- As the detailed impact on scope becomes clearer, we will discuss and agree the impact of the required scope changes with management.
- Our year-end reporting will include our draft findings ahead of issue of the Auditor's Annual Report.

Revisions to auditing standards coming into effect

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Board (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 *Financial Instruments*, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020.

We summarise on the next few slides how this will impact our audit.

"There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates"

FRC letter to the IAASB, July 2017

Area of change	Impact on our audit	Impact on the committee
Assessment of oversight and governance relating to estimates	In connection with our planning work to understand the entity and its environment, including internal control, we will specifically inquire regarding management's processes, and the oversight and governance of those processes relating to accounting estimates.	You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof.

Revisions to auditing standards coming into effect – (continued)

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the committee
Identification of inherent risk factors; separate assessment of inherent risk and control risk Objectives-based work effort requirements	Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them. We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty.	You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the financial statements.
Enhanced "stand back" requirement, to evaluate the audit evidence obtained	We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence.	You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence.

21

Agenda Item 7

Deloitte Confidential: Government and Public Services

Revisions to auditing standards coming into effect – (continued)

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the officers
Enhanced requirements about whether disclosures are "reasonable"	The extant ISA 540 required us to evaluate whether disclosures were "adequate". The change to "reasonable" will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.	You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty.
New requirements when communicating with those charged with governance	In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors.	You should expect increased reporting in relation to accounting estimates.

Audit Quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on the significant risk areas, as outlined above.

We have obtained a deep understanding of your business, its environment and of your processes in expenditure, cash handling, revenue, capital expenditure and payroll enabling us to develop a risk-focused approach tailored to the Reigate & Banstead Borough Council.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve IT specialists, pension and valuations experts to support the audit team in our work on understanding the IT environment and revaluation of fixed assets.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills, delivered by Ben Sheriff. This includes making the team aware of recent sector developments, how accounting rules are applied to a Council's and our specific auditing approaches for local authorities.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope;
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

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

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

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

Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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 | 7 June 2021

Appendices

Appendix 1 - Fraud responsibilities and representations

Responsibilities explained

Your 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.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in revenue recognition, the accuracy of accrued income, and management override of controls as a key audit risk for your organisation.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Committee:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1 - Fraud responsibilities and representations- (Continued)
Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.

Internal audit

- Whether internal audit specialist have knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain their views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Appendix 2 - 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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ended 31 March 2021 in our final report to the Audit Committee.
Fees	The “scale fee” set by Public Sector Auditor Appointments Limited for the financial statement audit, including whole of government accounts and procedures in respect of the value for money assessment, is £37,585, subject to fee variations for changing accounting and auditing requirements and the cost of actual delivery. While we acknowledge management’s commitment to improvement in the financial reporting process, we consider that the scale fees at present are significantly below the cost of delivery of the audit, and this has been recognised in the Redmond Review and proposals of MHCLG and PSAA. For 2019/20, we have agreed, subject to PSAA approval, a fee variation of £15,000 for the Council as reported in our paper of 18 May 2021. For 2020/21, there are on-going discussions with PSAA in respect of scale fees. We would highlight that we would expect there to be potentially significant fee increases reflecting a number of changes in 2021 including the additional Covid-19 activities in year, on-going additional accounting and auditing complexities around Covid-19, and the requirements of the revised Code of Audit Practice in particular in respect of Value for Money, the increased requirements on audit of accounting estimates under the revised ISA 540, and wider regulatory changes increasing the cost of audit delivery.
Non-audit services	In our opinion there are no inconsistencies between the FRC’s Ethical Standard and the Council’s policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Council, its councillors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Our approach to quality
AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

Our approach to quality – (continued)

AQR team report and findings

The AQR's 2019/20 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 17 individual audits this year and assessed 13 (76%) as requiring no more than limited improvements. Of the ten FTSE 350 audits we reviewed this year, we assessed nine (90%) as achieving this standard."

"We have highlighted in this report aspects of firm-wide procedures which should be improved, including strengthening the monitoring of the firm's audit quality initiatives."

"Our key findings related principally to the need to:

- Improve the extent of challenge over cash flow forecasts in relation to the impairment of goodwill and other assets.
- Enhance the effectiveness of substantive analytical review and other testing for revenue.
- Improve the assessment and extent of challenge regarding management's estimates, particularly for model testing."

"The firm has taken steps to address the key findings in our 2019 public reports, with actions that included focused training and standardising the firm's audit work programs. We have identified improvements, for example in the audit of potential prior year adjustments and related disclosures, a key finding last year. We also identified good practice in a number of areas of the audits we reviewed (including effective group oversight and robust risk assessment) and in the firm-wide procedures (including the firm's milestone program, with expected dates for the phasing of the audit monitored by the firm)."

This page is intentionally left blank