



## Reigate & Banstead Borough Council

Final report to the Overview and Scrutiny Committee on  
the audit for the year ended 31 March 2019

Issued on 7 October 2019

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# Introduction

## The key messages in this report

Our audit work for the 2019 audit is complete and we have issued our audit opinion and certificate. The scope of our audit was set out within our planning report presented to the committee in April 2019.

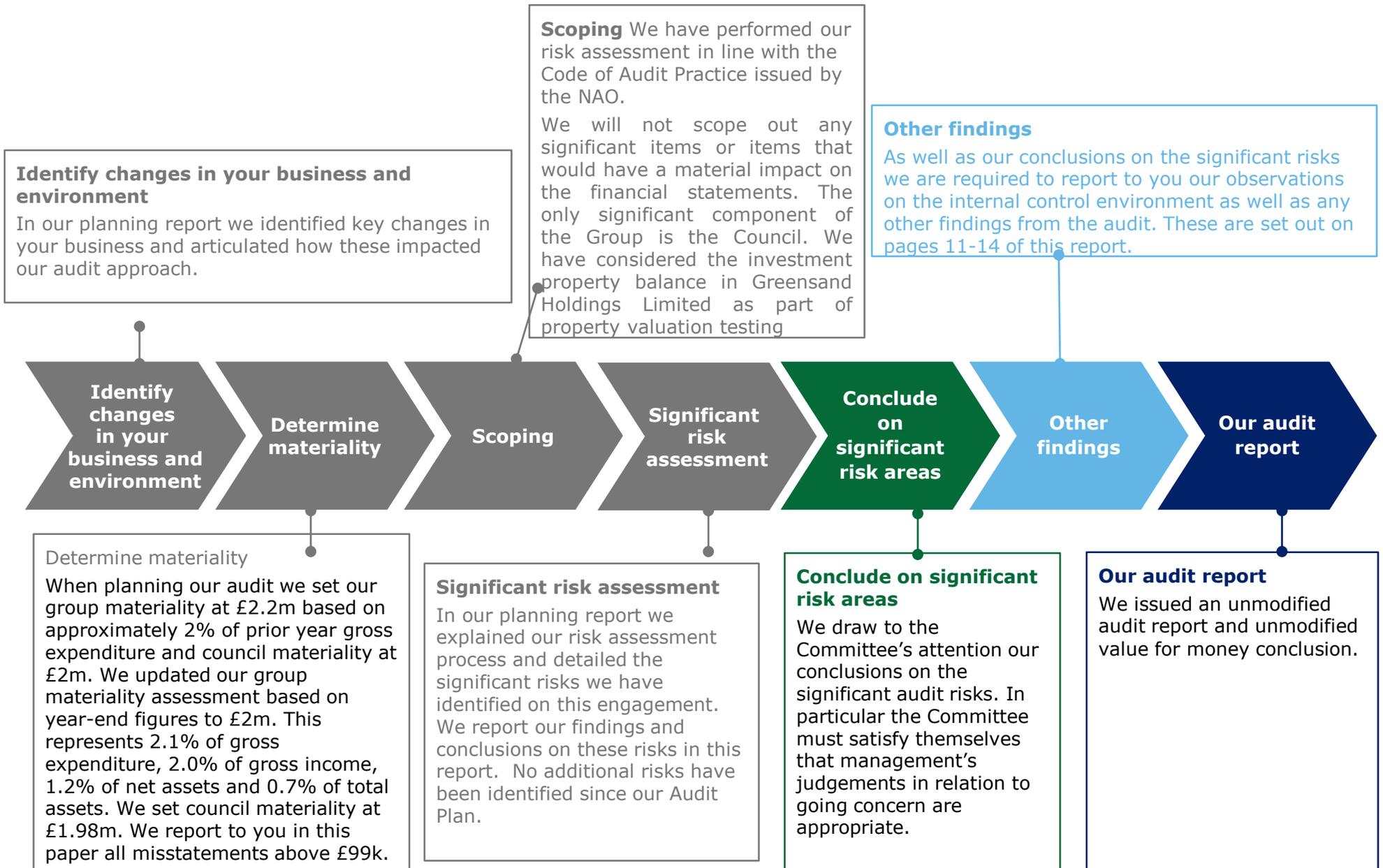
Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- 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.

<b>Status of the audit</b>	<p>Our audit is complete and we have issued our audit opinion and certificate and reporting to the National Audit Office for Whole of Government Accounts purposes.</p> <p>We have included a section in this report providing observations arising from the work we have carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report.</p> <p>Our housing benefit subsidy assurance work is still ongoing.</p>
<b>Conclusions from our testing</b>	<ul style="list-style-type: none"><li>• The key judgements in the audit process related to<ul style="list-style-type: none"><li>• The assumptions made in completion of the land and buildings revaluation;</li><li>• The assumptions used in valuing the Council's defined benefit pension liability.</li></ul></li><li>• We have set out a summary of misstatements and disclosure deficiencies identified in an appendix to this report.<ul style="list-style-type: none"><li>• Uncorrected misstatements decrease the surplus on the CIES by £0.7m, decrease net assets by £0.5m, and decrease prior year equity by £0.2m.</li><li>• Corrected misstatements identified reduced the surplus for the year and net assets by £6.4m, with a larger gross presentational impact (reducing gross income and gross expenditure by £12.4m).</li></ul></li></ul>
<b>Financial sustainability and Value for Money</b>	<ul style="list-style-type: none"><li>• As discussed on page 15, 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.</li><li>• We have not reported 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.</li></ul>
<b>Narrative Report &amp; Annual Governance Statement</b>	<ul style="list-style-type: none"><li>• We have reviewed the Council's Annual Report &amp; Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.</li><li>• The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.</li><li>• We have suggested a number of minor changes to management for consideration and these have been updated.</li></ul>
<b>Duties as public auditor</b>	<ul style="list-style-type: none"><li>• We did not receive any queries or objections from local electors this year.</li><li>• 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.</li></ul>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"><li>• The Council is not a sampled component for WGA reporting.</li><li>• We have reported our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.</li></ul>

# Our audit explained

## We tailor our audit to your organisation



# 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:

- 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 after year end to till mid June 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**

We are satisfied that the liabilities recognised by the Council at year end are materially correct

# 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 obtained a short term loan of £12m to support the working capital of the Council during the year. The loan balance has been fully paid off by the end of June.

We have also 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 made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments

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.

Our analysis covered 436,703 data records in the year. Investigation of items sampled using Spotlight did not identify indicators of management override.

### 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 RBBC share percentage from 40% in the prior year to 30% in the current year.
- 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 has not identified any significant bias in the key judgements made by management.

# 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 31 March 2019 financial statements after all corrected adjustments, the Council held £107.3m of property assets, a decrease of £5.5m, including £0.2m revaluation gain and £3.6m of additions. The Council also held £95.0m of investment property assets, which included a net revaluation loss of £5.2m and £34.1m of additions. Assets are revalued on a regular basis to ensure that their carrying amount is not materially different from their fair value at the year end. The revaluation policy specifies that a full revaluation is carried out at a minimum every 5 years.

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 £10.8m.

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 and awaiting support on one sample.
- 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 by the audit team and Deloitte Real Estate team identified a number of errors which were communicated to management. Management and the Council's valuers reviewed the affected valuations and postings, and updates were made to the fixed asset register and financial statements, with the significant items identified adjusted as noted in the Appendix on page 20.

# 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, movements in asset values and the impact of McCloud judgements .

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. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of the liability.

The Council's actuary has assessed the impact as £0.6m which has been adjusted in the 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 in the opposite table.
- 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 have access 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 analytical procedures to test the asset value and movements for the year.
- We reviewed and challenged 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 review of the assumptions and calculations showed that the CPI and pension increase in payments assumptions were at the prudent end of the reasonable range. No other significant issues were identified.

# 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 are 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 fixed deposits and trading company investments (loans), which resulted in an expected credit loss of adjustment of £185k in 2018/19. All other expected credit loss were considered immaterial and was not adjusted. 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.

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 no 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. Again, 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 fully include these new disclosures and as a result the financial statements do not fully comply with the Code in this respect. We had requested disclosures be added in the final financial statements and managements have updated the latest stats.

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 also set out in our audit planning report the two areas of significant risk identified by our risk assessment procedures performed at that point. 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 large investments in year;
- we discussed the Council's arrangements with Pat Main (interim section 151 officer) and Helen Stocker (Deputy Section 1 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 our other audit; 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 we have issued 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.

Area	Observation	Priority
<b>Quality of draft financial statements</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• Accounts disclosures not updated for 2018/19 changes in the Code;</li> <li>• Inconsistencies between notes and primary statements;</li> <li>• “Negative” balances due to inclusion of £2.1m of debtors within creditors;</li> <li>• Accounts disclosures and accounting policies only partly updated for the adoption of IFRS 9 and IFRS 15; and</li> <li>• Other issues requiring adjustment to financial statements;</li> </ul> <p>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;</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• documented and reviewed use of CIPFA disclosure checklists;</li> <li>• documented and reviewed internal checks of arithmetic accuracy and internal consistency;</li> <li>• completion of the CIPFA “pre-audit checks on draft year-end accounts” checklist; and</li> <li>• documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.</li> </ul> <p>This had been included in our draft report</p>	
<b>New accounting standards – IFRS 9 and 15</b>	<p>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.</p> <p>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.</p> <p>This had been included in our draft report</p>	

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 (continued)

## 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
<b>Preparation for IFRS 16</b>	<p>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.</p> <p>Managements have completed preparation work and we recommend early consideration following the impact analysis of actions required to embed in the Council's underlying accounting systems. 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.</p>	
<b>Wrong posting to the fixed asset register</b>	<p>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.</p> <p>This represent a risk that the source information used in preparing the financial statements may maybe materially misstated due to posting errors.</p> <p>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.</p>	
<b>Grant Income register</b>	<p>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.</p> <p>We recommend that managements prepares and maintains a grant register and put in place procedures to ensure its accuracy and completeness</p>	
<b>Processing of valuation of property, plant and equipment</b>	<p>Our review of the valuation identified differences in processing of adjustments including through to posting in the fixed asset register. Management's investigation of these differences required adjustments to the financial statements.</p> <p>In addition, we identified that that the Council's Valuer had noted potential adjustments being required for the Cromwell Road and Pitwood Park properties which had not been included in the draft accounts as an open matter in the valuation report was not appropriately actioned.</p> <p>We recommend management review the controls in place both over checks on the valuation and over the posting of the asset values to include additional control checks in the process prior to final posting of values.</p>	

# Other significant findings-(continued)

## 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
<b>Segregation of duties between developers and change promoters is not in place</b>	<p>During our review of key financial applications, we noted that segregation of duties between developers and change promoters is not enforced. The IT Team perform the changes on the respective application, where possible, and promotes the change into the production environment or the vendor performs the change and promotion of the change.</p> <p>There is a risk that users make inappropriate changes to application source code, and migrate the change, thereby going undetected.</p> <p>We recommend management ensure there is appropriate segregation of duties between developers and change promoters. Alternatively, management should perform a retrospective review to ensure that no changes were developed and deployed by the same user.</p>	
<b>Segregation of Duties between System Administrators and Business Users is not in place</b>	<p>During our review of key financial applications, we noted that segregation of duties between system administrators and business users is not enforced. The following applications have business users allocated administrator rights, due to the small numbers within the respective teams:</p> <ul style="list-style-type: none"><li>• Agresso: System Administrator access allocated to the Accountants</li><li>• Civica: System Administrators access allocated to the Transaction Manager, Finance Officers and Accountant</li><li>• Northgate: System Administrators access allocated to the Revenue Administrator, Service Support Manager, Council Tax Manager and Support Worker.</li></ul> <p>There is a risk that business users who have administrator access on the respective applications may alter configuration or create ghost users to remove accountability for inappropriate activity</p> <p>We recommend managements put in place measures to ensure segregation of duties between system administrators and business users</p>	
<b>User access reviews are not in place for key financial applications</b>	<p>During our review of the IT Environment we noted that there are no formalized user access reviews in place for any of the in-scope applications. There is not a documented and consistent approach to Joiners, Movers and Leavers for the following applications:</p> <ul style="list-style-type: none"><li>• Busneiss World On</li><li>• Civica iCon</li><li>• Northgate Housing Management System</li><li>• iTrent</li><li>• Agresso</li></ul> <p>There is a risk that users retain inappropriate access or gain inappropriate access, which is not identified in a timely manner.</p> <p>We recommend formalising the approach to access changes for Joiners, Movers and Leavers.</p>	

# Other significant findings- (continued)

## 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
<b>Capital and investment strategies and borrowing for investment</b>	<p>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.</p> <ul style="list-style-type: none"><li>•We recognise the Council has undertaken a commercial governance review in year and has been putting in place enhanced governance around these areas</li><li>•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.</li><li>•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.</li><li>•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.</li></ul>	

# 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	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>- Organisational overview and external environment;</li> <li>- Governance;</li> <li>- Operational Model;</li> <li>- Risks and opportunities;</li> <li>- Strategy and resource allocation;</li> <li>- Performance;</li> <li>- Outlook; and</li> <li>- Basis of preparation</li> </ul>	<p>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:</p> <ul style="list-style-type: none"> <li>• The Council’s operational model, in particular in respect of increased investment;</li> <li>• Risks and opportunities; and</li> <li>• Outlook.</li> </ul> <p>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.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>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</p>

# 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 the Audit 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.



**Ben Sheriff**

for and on behalf of Deloitte LLP

St Albans

7 October 2019

# Appendices



# Audit adjustments

## Unadjusted misstatements

The following uncorrected misstatements have been identified and we request that you ask management to correct them as required by ISAs (UK). Uncorrected misstatements decrease the surplus on the CIES by £0.7m, decrease net assets by £0.5m, and decrease prior year equity by £0.2m.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	<i>Memo: Debit/ (credit) usable reserves £m</i>	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>						
Credit balances included in Debtors	[1]		0.2 (0.2)			
Impairments charge on Plot 1 Pitwood Park Industrial Estate	[2]	0.5	(0.5)			
Prior year gain recognised in the current year	[3]	0.2		(0.2)		
<b>Total</b>		<b>0.7</b>	<b>(0.5)</b>	<b>(0.2)</b>		

- (1) The Debtor sub ledger balance included credit balances of £165k that should have been presented in debtors
- (2) Impairments charge on Pitwood Park properties of £481k, due to the demolishing of the building
- (3) Included in the gains on disposal of assets is a prior year Clawback gain of £230k that was previously disclosed under the S106 account.

# Audit adjustments

## Disclosures

### Disclosure misstatements

The following uncorrected disclosure misstatements have been identified, which we request that you ask management to correct as required by ISAs (UK).

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#### Disclosure

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1. Consistency of the investment properties revaluation movements – there are immaterial inconsistencies between disclosure notes due to differences in presentation
    - i. the FV of investment properties of £5,128k is different to the £5,154k in note 12 or the £5,319k in note 3;
    - ii. net income/expenditure on investment properties figure of £3,065k differs to the net income figure in Note 12 of 2,874k; and
    - iii. the net income/expenditure and fair value movements are split out in current year in Note 3, but comparative is presented with all movements shown together as a single figure.
  
  2. Community Infrastructure Levy outstanding at year end of £315k that are short term in nature have been disclosed as long term debtor in the financial statements.
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# Audit adjustments

## Corrected misstatements

The following corrected misstatements have been identified and corrected by management as required by ISAs (UK). Corrected misstatements increase/(decrease) the surplus on the CIES by £6.4m, increase/(decrease) net assets by £6.4m, 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]	10.6 (10.6)			
Debit balances included in creditors	[3]		2.1 (2.1)		
Presentation of non domestic rates income and expenditure	[4]	1.8 (1.8)			
Impairments charge of Cromwell and Pitwood properties	[5]	0.8	(0.8)		Yes
Revaluation adjustments to the fixed asset register to correct errors in posting	[6]	4.0	(4.0)		Yes
Classification error of creditors in bank	[7]		0.3 (0.3)		
Reclassification of long term investments balance from long term debtor	[8]		0.1 (0.1)		
Reclassification of impairment loss on investments from bad debt provision	[9]		0.2 (0.2)		
Reclassification of accrued income from short term debtors	10]		0.5 (0.5)		
<b>Total</b>		<b>6.4</b>	<b>(6.4)</b>		

# Audit adjustments

## Corrected misstatements - Continued

- (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.
- (5) The buildings on Cromwell Road and Pitwood park properties were demolished in year without this being adjusted for the in the valuation. The valuation has been adjusted to write off the value of buildings leaving only the cost of the land.
- (6) We noted various errors in the valuation report which affected the adjustments to the fixed assets register (FAR) we audited. A new valuation report was issued and the fixed asset register and final financial statements.. These resulted in a number of adjustments on affected properties.
- (7) Subtractive reconciling items on the bank reconciliation which should have been presented as creditors balances at year end
- (8) Investment in Horley LLP of £122k was initially recognised as a debtor balance
- (9) impairment loss on long term investments of £185k was initially recorded to bad debt and as per the requirements of IFRS 9, this has been reclassified to reduce the cost of the long term investments.
- (10)The accrued interest on investments of £475k which was initially recognised in short term debtors has been reclassified as per the requirements of IFRS 9 to the cost of investments.

In addition, due to additional information available post year-end, management have adjusted the valuation of pensions by £0.7m for the impact of the McCloud judgement.

# 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 Overview and Scrutiny 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:

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<b>Independence confirmation</b>	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.
<b>Fees</b>	<p>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.</p> <p>We have been appointed to perform the 2018/19 Housing Benefit testing, which is currently ongoing. The fee for this work (assuming no extended testing required) is shown on the next page.</p>
<b>Non-audit services</b>	In our opinion there are no inconsistencies between the 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.
<b>Relationships</b>	<p>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.</p> <p>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</p>

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# Independence and fees

	Planned £ (excl. VAT)
Code audit fee (prior to fee variation for additional costs)	37,585
<b>Total audit</b>	37,585
Fees for reporting on the housing benefit subsidy claim	14,000
<b>Total assurance services</b>	14,000
<b>Total fees</b>	<b>51,585</b>

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 and adjustments in respect of valuations.

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



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