Reigate & Banstead Borough Council

Final Report to the Audit Committee on the 2020/21 audit

Issued on 11 December 2024

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Introduction

The key messages in this report

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

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee of Reigate & Banstead Borough Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in April 2021.

Status of the audit	Our audit is now complete. There have been long delays in completing the audit, caused by a number of factors including the remediation work required by the Council to the Fixed Asset Register (FAR) based on the 2019/20 audit recommendations, publication of the 2020/21 financial statements as well as resourcing constraints experienced across the sector. We have included a section in this report providing observations arising from the work carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report.
Conclusions from our testing	We have not identified any significant uncorrected audit adjustments or disclosure deficiencies. We have summarised audit adjustments noted on page 29. We issued an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement. We have considered the impact of the Covid-19 pandemic on our work and include details on page 7 of this report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic. We have provided a status of the internal control deficiencies which have been included from page 20.
Status of our Value for Money audit	Our Value for Money work is complete and will be reported to the Audit Committee in our Auditor's Annual Report. We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources. We have no matters to report by exception in our financial statement audit opinion.

Introduction

The key messages in this report (continued)

Narrative Report & Annual Governance Statement	We have reviewed the Council’s Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. We have no matters to raise with you in respect of the Narrative Report.
Duties as public auditor	We did not receive any queries or objections from local electors this year. We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	As per the Weekly Auditor Communication issued by the National Audit Office on 26 July 2023, Whole Government Accounts (WGA) group audit construction to component, the WGA group audit team confirmed they did not require further work or submission from the component auditors on WGA returns for 2020-21.
Impact of Covid-19 grants and change in significant risk assessment	As part of our Audit Plan, presented to the Audit Committee in April 2021, we highlighted a need to better understand the impact of the Covid-19 grant funding arrangements at the Council. Following the issuance of the audit plan, we completed a risk assessment of Covid-19 funding streams. This risk assessment highlighted the need for the Council to make significant judgements around the recognition and treatment of Covid-19 grant funding in the 2020/21 financial statements. Given the level of judgement involved, we identified Covid-19 grant income as a significant audit risk. Further information regarding the work performed and our conclusions on this risk can be viewed on page 14.

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

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.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Approve appointment of the Council's external auditor, as recommended by Public Sector Audit Appointments.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- 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 raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in the Council's operations and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice issued by the NAO. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks and our Value for Money work, we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Our audit report

We issued an unmodified audit report.

Determine materiality

When planning our audit we assessed materiality based on the gross expenditure per draft annual financial statement 2020/21. Final Group accounts and Council materiality have been determined at £2m, and the performance materiality were set at £1.5m. We will report to you all misstatements exceeding £100k.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement.

We report our findings and conclusions on these risks in this report. We have identified the accounting for Covid-19 grants as a significant risk.

Conclude on significant risk areas

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

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	A thorough assessment of the current and potential future effects of the COVID-19 pandemic was taken 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.

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
We considered the key impacts on the business such as: • Interruptions to service provision. • Unavailability of personnel. • Reductions in certain income streams such as parking and leisure fees and charges. • 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 have considered the impact on the audit including: • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel.

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

Potential impact on annual report and financial statements		Audit response
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert in March 2020 as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and "emphasis of matter" paragraphs in audit reports By September 2020 RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2021 are not expected to be affected by material valuation uncertainties However, the on going financial impact of the pandemic has impacted valuations, both through demand for particular asset types and weakening the financial standing of tenants. The Council needs to consider its approach to the measurement of property, plant and equipment (where property held at current value is based on market valuations) the Council should consider with their valuers the impact that Covid-19 has had on current value The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.	The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2021. The is no material uncertainty disclosed in the Statement of Accounts and we have concluded that this is appropriate based on our work on property valuations, (page 11 included challenging whether the Council had appropriately considered the impact of Covid-19 on the valuation). Disclosures of the key judgements in this area are made in note 1 and 17 to the financial statements.
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. Although volatility is lower relative to 31 March 2020, there have been significant market movements during the year which may impact valuations.	The Council has considered its approach to the measurement of Investment property (IP). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2021. The is no material uncertainty disclosed in the Statement of Accounts as expected relating to IP.
Expected credit losses	Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	For non-public sector debtors consideration is needed of the impact on the required level of provision for expected credit losses under IFRS 9. The Council debtors have increased at 31 March 2021 and as expected, we note that the Council has increased its level of provisioning as a result of the Covid-19 pandemic and no issues have been noted with the level of these provisions.

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

Potential impact on annual report and financial statements		Audit response
Covid-19 grants	Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, specifically around the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions of the Covid-19 grants have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal.	We have tested the design and implementation of key controls in place around the recognition of Covid-19 grant income; We have reviewed the accounting treatment of new Covid-19-related grants for 2020/21 to confirm that they have been correctly accounted for as either an Agent or Principal arrangement; and We tested on a sample basis grants including the new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income. We have not identified any material misstatement.
Narrative and other reporting issues	The following areas will need to be considered by local authorities as having being impacted on by the Covid-19 pandemic. • 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.	We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. At 31 March 2021, we noted that the Council’s share of pension fund assets had moved by £38m.	We engaged early with the Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. We have not identified any material misstatement.

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

Impact on annual report and financial statements		Audit response
Going concern assessment	Under the CIPFA Bulletin 05, the going concern assumption remains unchanged despite the impact of Covid-19 as local Council'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 Council financial sustainability.	Through the performance of the audit procedures documented below, we conclude that management's assertion and disclosure that the Council continues to be a going concern and there are no material uncertainties is appropriate. We have also reviewed the narrative report as noted above and no issues identified including the Covid-19 consideration.
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.	Based on the procedures completed, we have not become aware of any subsequent event that require adjustment of, or disclosure in the financial statements. We continued to monitor and update the subsequent events necessary to the date of the auditor's report.

Significant risks

Risk 1 - Property Valuation

Risk identified	The Council held £139m of property assets (other lands and buildings) and Heritage assets at 31 March 2020 which decreased to £124m as at 31 March 2021. This was largely due to a net downward valuation of £10.5m, additions of £1.4m and asset re categorisation of £6m. Investments properties also held by the Council decreased from £45m at 31 March 2020 to £43m at 31 March 2021, due to a net revaluation loss of £1.1m, and the transfer to property, plant and equipment of £1m. 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.
Deloitte response and challenge	We have completed the following procedures: • We reviewed the design and implementation of the controls in place in relation to property valuations; • We considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • We engaged our valuation specialists, Deloitte Real Assets Advisory, to review and challenge whether the assumptions made are consistent with the Council's strategy and approved at an appropriate level within the Council; • We tested the inputs used in the valuation including the gross internal areas provided to the valuer, including testing a sample of measurements to check the data accuracy; and • We considered the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements
Conclusion	• We have concluded that the value of the Council's property valuation and movement in valuation is not materially misstated.

Significant risks (continued)

Risk 2 - 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 identified 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 £24.4m. The Council reported a forecast underspend of £925k. 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 and challenge	We have completed the following procedures: • We obtained 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 performed focused testing in relation to the completeness of expenditure including a detailed review of accruals. • As part of this focused testing we challenged any assumptions made in relation to year-end accruals; • We also reviewed expenses recorded in the final months of the year against previous trends to identify if there are any inconsistencies. • We performed 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 reviewed 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.
Conclusion	• We have concluded that no material misstatement identified with the expenditure and accruals account balance however, we have raised two internal control deficiency findings on the completeness of expenditure and accruals. See details on page 24.

Significant risks (continued)

Risk 3 - 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.
Deloitte response and challenge	We have performed the following procedures: • We tested the design and implementation of key controls in place around journal entries and management estimates; • We risk assessed journals and select items for detailed follow up testing. The journal entries are selected using computer-assisted profiling based on areas which we consider to be of increased interest; • We tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting; • We reviewed accounting estimates for biases that could result in material misstatements due to fraud; • We obtained 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 used 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.
Conclusion	We have not identified any significant bias in the key judgements made by management based on work performed. We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed. We however noted that the council uses the Analyse Local model for determining the NDR provision. Whilst the Analyse Local model does take into consideration the impact of unsuccessful appeals/challenges and discounts the provision, the basis for the provision should also take into account the actual historic success rates which will ensure that the provision is more soundly based. We however do not consider this as management override of controls.

Significant risks (continued)

Risk 4 – Revenue recognition of Covid-19 grants

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. Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, specifically around the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions of the Covid-19 grants have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal.
Deloitte response and challenge	• For the business support grants (the most material activity stream), we obtained 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 evaluated 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 reviewed any relevant findings from internal audit as part of our risk assessment. • We assessed 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 impacted the financial statements, and any issues identified in relation to controls or processes over the schemes. • We reviewed 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.
Conclusion	After concluding our work, we have not identified any material misstatement.

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 £94.6m at 31 March 2021 an increased from £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.
Deloitte response and challenge	We have completed the following procedures: • We carried 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 also liaised with the scheme auditor on the results of their audit procedures on the scheme as a whole; • We considered 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 scoped our work, including the nature and extent of our actuarial specialist’s involvement, in a way which responds to this detailed risk assessment; • We considered 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 reviewed the disclosure based on the IAS 19 report issued to the Council by the actuary and we assessed the competence and objectivity of the work of the actuary.
Conclusion	• We have concluded that appropriate work performed and have not identified any material issues noted with the pension liability. See our detailed assumption assessment in next page.

Other areas of audit focus (continued)

Pension liability valuation (continued)

Review of assumptions used by actuary

As part of our testing, we reviewed the assumptions used by the actuary and have set out below our assessment of the assumptions used in the IAS19 valuation.

Assumption	Council	Benchmark	Deloitte Assessment
Discount rate (% p.a.)	2.00%	1.95% - 2.20%	
Retail Price Index (RPI) Inflation rate (% p.a.)	3.30%	3.10% - 3.55%	
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.85%	Deduction to RPI	
Salary increase (% p.a.) (over RPI inflation)	3.75%	Council specific	
Pension increase in payment (% p.a.)	2.85%	CPI inflation	
Pension increase in deferment (% p.a.)	2.85%	CPI inflation	
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22.3	CMI 2018	
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.4	CMI 2018	

Conclusion After concluding our work, we have no matters to bring to the attention of the Audit Committee.

Assessment key

In reasonable range

Towards limit of reasonable range

Optimistic or Prudent

Other areas of audit focus (continued)

Group accounts

Component	Significant to group	Scope
Reigate & Banstead Borough Council	Yes	**Scope B**
Greensand Holdings Limited	Yes	**Scope A**
Horley Business Park Development LLP	Yes	**Scope A**
Pathway for Care Limited	Yes	**Scope A**

Scope A:

Specific audit procedures have been performed by the audit team on one or more account balances which are significant to the group financial statements.

Scope B:

Full scope audit procedures have been performed by audit team to a materiality appropriate to the group and individual financial statements of the entity.

Conclusion Our audit of the group accounts is finalised and we have not identified any material misstatements.

Other areas of audit focus (continued)

Value for Money

Value for Money requirements

We are required to consider the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 (‘AGN03’), we are required to:

- Perform work to understand the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor’s Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Work performed to obtain an understanding of the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow-up interviews on areas where additional information was required.

In addition, we have:

- reviewed of the Council’s draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work; and
- considered the Council’s financial performance and management throughout 2020/21.

We have also considered the impact of COVID-19 during our review.

Value for money

Our conclusions are reported in our Auditor's Annual Report for 2020/2021 (continued)

Status of our work and significant weaknesses

We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Your control environment and findings

High-level impact on our approach

ISA (UK) 315 requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.

Your control environment

Your risk assessment process

Your information systems and communication

Your control activities

Your monitoring of controls

Significant Risk Area	Summary	Maturity CY/PY
Property valuation	• Following the work performed by Deloitte Real Assets Advisory team, we have raised findings regarding to the internal control of the external valuer (WH&E). See details on the following pages (page 21 – 22)	
Completeness of expenditure and accruals	• We have raised two findings regarding the understatement of accruals of £485k (extrapolated error) and one finding on the internal control.	
Management override of control	• After concluding our work, we have no matters to bring to the attention of the Audit Committee.	
Revenue recognition of Covid-19 Grants	• After concluding our work, we have no matters to bring to the attention of the Audit Committee.	

Key: Mature Developing Lagging

Your control environment and findings – Significant risk areas

Property valuation

Title	Description	Our recommendation	Management response
Valuer approach to building costs	Deloitte Real Assets Advisory team enquired with the valuer about why the average movement in building costs reported by BCIS was adopted when advising on the growth in the value of specialised assets valued using the DRC method, rather than the movement in building costs for the respective building types which they noted ranged from -1% to 3% and when formulating this advice whether they considered any evidence of actual building costs for compatible buildings to the specialised assets in the council's portfolio.	For future valuations, we recommend that the Council should challenge the valuer on the approach that applies the average movement in building costs reported by BCIS over the period, rather than reported movement in construction costs for the particular type of building.	Recommendation accepted, although we remain of the opinion that the Council's Valuers, Wilks Head & Eve LLP, do clearly show the different property types that are typical to a council portfolio of specialised assets. And each property has its own stated movement. However, it should be clearer that these reviews are indexation and not a valuation.
Valuer's (WH&E) approach to obsolescence	Deloitte Real Assets Advisory noted that there was a single allowance and the three types of obsolescence were not shown. They asked the valuer to explain how these had been considered for each asset noting the general comment that a straight line adjustment had been applied over the first 25 years of an assets life after which obsolescence increases at a slower rate.	We recommend that the valuer is challenged on this point and asked to consider, in respect of future valuations, the validity of an approach that generally applies the same straight line adjustment to all assets for physical deterioration and obsolescence.	Recommendation accepted, though the Council's Valuers, Wilks Head & Eve LLP do provide a detailed explanation in the reporting certificate which explains the reducing balance approach and the reason behind it.

Your control environment and findings – Significant risk areas

Property valuation

Title	Description	Our recommendation	Management response
Valuer's (WH&E) assumptions for RUL of assets.	The valuer has applied remaining useful life ("RULs") of 50-56 years across the majority of the properties, regardless of age and condition with the exception of land and surface car parks, while they have adopted the same RULs for each of the component elements of the building across the assets valued by DRC.	We suggest that the Council challenges the valuer on the validity of an approach that applies similar RULs to all assets and component elements, regardless of type, age and condition.	The Council has challenged the Valuer's (Wilkes, Head & Eve LLP) approach but must accept their professional opinion in response to that challenge which states: "In relation to RUL it is a common approach across the profession to apply a form of banding approach in the assessment of lives. The lives are predominately used for calculating annual depreciation charges and non-reflective fluctuations can be problematic. Public sector assets, in contrast to what can be found in the Private sector, are often reactively maintained to extend initial estimates of life with the aim of keeping the service provision in place without the need to replace the asset entirely and the approach that we adopt reflects this whilst also avoiding unnecessary movements in annual depreciation charges for assets where the service provision is at an appropriate level. As we have mentioned we are not aware of any of the assets that we have valued where the service provision is below the required standards for example those which have inherent issues or are planning on being closed and demolished which would result in a shift to the lives applied and we are of the view that the adopted lives are a fair estimate for the properties at the valuation date."

Your control environment and findings – Significant risk areas (continued)

Property valuation (continued)

Title	Description	Our recommendation	Management response
Review the location of the MEA prior to each re-valuation	Deloitte Real Assets Advisory enquired with the valuers about whether alternative cheaper sites regarding MEA's for assets being valued using DRC had been discussed with the council and whether documentary records were kept. The valuer stated that they did not have records of these conversations but held meetings with the client when first undertaking the valuations to ensure that all considerations were made in terms of what would be the principle and competitive market.	The Client should review the location of the Modern Equivalent Asset (MEA) prior to each re-valuation in order to consider whether it's location has changed over time. On the basis that the Modern Equivalent Asset would remain on the current site in relation to the developed area or in a location as advised by the Council then there is no material impact on the valuation, however this should be reviewed and documented on an annual basis.	Recommendation accepted; in future the Property Team will document discussions around the location of the Modern Equivalent Asset for Depreciated Replacement Cost valuations.
Inclusion of appropriate commentary around the differences between Current value and market value	The red book definitions of current and market value are recited within the valuation report, but no commentary is included within the report in relation to possible differences between the current and market value of the council's operational assets.	The valuer should be requested to provide a suitable statement and to ensure that future valuation reports include appropriate commentary on this point.	Recommendation accepted, The Council's Valuers, Wilks Head & Eve LLP, have noted this requirement.

Your control environment and findings – Significant risk areas (continued)

Completeness of expenditure and accruals

Title	Description	Our recommendation	Management response
Incompleteness of accruals	During our review of accruals, we noted that accruals were not raised for three invoices to the value of £445k despite the services being provided before year end. We extrapolated this error to the testing population and note a projected understatement of accruals of £485k, which is above our reporting threshold. There is a risk that accruals are understated, and the related expenditure is accounted for in the incorrect period.	Management should put in place appropriate procedures and processes to ensure that all services received, and expenditure incurred are accounted for in the correct period and that a liability is raised where a service has been received but not yet invoiced or invoiced but not yet paid for.	Management accepted and agreed on the recommendation.
Accruals internal control design	Accruals are finalised by the Finance team member, reviewed by Finance Manager and subsequently reviewed by the Head of Finance at YE with email confirmation as evidence. However, given the time limit of the Council's email storage, no such email confirmation for accruals review FY21 can be obtained.	It is recommended that the approvals trail for accruals balance is maintained appropriately	Recommendation accepted, with effect from August 2023 all Council emails are now stored on the Cloud with no limits on storage/retention.

Findings

Pension Liability

Title	Description
Pension liability	Per our testing of pension balances, we noted that the Council did not make an allowance for any additional costs for the year ending 31 March 2021 as a result of the Goodwin case ruling. Also, an allowance was not made for the year ending 31 March 2020 on the basis of minutes from the LGPS advisory board that the government is not conceding the Goodwin case. For a typical LGPS employer, we understand that the estimated Goodwin impact could be between 0.0% and 0.3% of the DBO (i.e. up to £735k). This is above the clearly trivial threshold but below the overall materiality level of the audit. The facts of the case are that; "In June 2020, the Employment Tribunal handed down its judgment in Goodwin v the Secretary of State for Education [1308506/2019]. The tribunal considered the rules on survivor benefits in the Teacher's Pension Scheme and concluded that a female member in an opposite-sex marriage was treated less favourably than a female member in a same-sex marriage or civil partnership, and that treatment amounted to direct discrimination on the grounds of sexual orientation. As a direct result of this discrimination, male survivors of female members were entitled to a lower rate of survivor benefit than a comparable same-sex survivor. Consequently, the relevant provisions of the Teachers' Pension Scheme Regulations 2010 were found to be in breach of the non-discrimination rule set out in Section 61 of the Equality Act 2010. Following the judgment in Goodwin, the Chief Secretary to the Treasury made a written ministerial statement on behalf of the government on 20 July 2020. The Chief Secretary to the Treasury announced that : "The government has concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances". Much as the judgement was founded on the Teacher's Pension scheme, we believe the judgement could potentially affect any other pension scheme. The judgement sets a legal precedent which can equally bind any other pension scheme. The judgement seeks to address direct discrimination on the grounds of sexual orientation. It is worth noting that the impact of the judgement has been considered in Hymans Robertson Actuarial Valuation covering report. The report does not rule out applicability of the Goodwin ruling on Reigate, however an allowance has not been made on the basis of the level of the additional work and fees that would be involved for the employer to apply additional adjustment to account for the ruling against the materiality of the allowance. As the judgement sets a legal precedent, pension schemes would ordinarily be expected to include the impact of the judgement in the IAS 19, hence the Goodwin case would still be in scope for 2020/2021 IAS 19 figures.

Findings

Pension Liability

Management response

The Surrey Pension Fund Actuary (Hymans Robertson LLP) have stated the following with regard to the Goodwin v. UK case, as set out in this Council's IAS19 report for 2020/21:

Whilst there is still some uncertainty surrounding the potential remedy to the Goodwin judgement, we have carried out some approximate analysis across our LGPS clients to understand the potential impact of implementing a solution to correct the past underpayment of spouses' benefits. The approximate impact of this is very small for a typical Fund(c0.1-0.2% of obligations).
We therefore do not believe there are sufficient grounds to apply an additional adjustment to account for this in a standard Results Schedule, given the level of additional work and fees that would be involved for the Employer(and indeed the highly approximate nature of applying an unknown remedy).
The Actuary's estimated impact for the Council's Pension Fund is a maximum of £189,250 based on the 31 March 2021 pension liability of £94.625m.

This Council would be required to fund a proportion of that liability when confirmed, however, as this Council does not employ teachers like Ms Goodwin, the impact is likely to be proportionately lower compared to those councils that do.
The relevant standards are set out in IAS37 (Provisions, Contingent Liabilities and Assets) and IAS19 (Employee Benefits):
Paragraph 5(d) of accounting standard IAS37 excludes the requirements of IAS37 to Employee benefits:
Where another standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provision are addressed in Standards on:

(d) Employee benefits(see IAS19 Employee Benefits).

- *IAS19 requirements:*
  Paragraph 88 and 89 of IAS19 then says:
  88. Actuarial assumptions reflect future benefit changes that are set out in the formal terms of the plan(or a constructive obligation that goes beyond those terms) at the end of the reporting period.
  89. Actual assumptions do not reflect future benefit changes which are not set out in the formal terms of the plan(or a constructive obligation) at the end of the reporting period.

To date no amendments have been made to the Local Government Pension Scheme Regulations with regard to the Goodwin judgement therefore it remains the Council's opinion that making an adjustment to figures reported in the Statement of Accounts for 2020/21 remains outside the scope of those Regulations.

Surrey Pension Fund have confirmed (as at November 2023) that the council's approach to reporting on the Goodwin case is consistent with the approach taken by the other local council members of the Fund and complies with current advice from the Fund's actuary (Hymans Robertson LLP).

The Council's management response is in line with other surrey councils' approach to 'Goodwin'.

Your control environment and findings – Other audit areas

Debtors & Provision

Title	Description	Our recommendation	Management response
Housing benefits debtors listing is understated by 254,598	There is a difference of £255k between the Housing benefits debtors listing for housing benefit overpayments and the trial balance.	It is recommended that the listing is monitored and reviewed by a senior Finance team member	The difference is due to the fact that some journal entries were posted incorrectly when reserving the debtors. The entries will be corrected for the FY22 accounts.
Projected Overstatement of Estimated and Sundry Debtors at Year end	During our testing we noted that cash for a CIL debtor had been received before year end in March 2021, however the receipt was not recorded in the accounting system and so Debtors were overstated by £86k and cash understated by £86k. We extrapolated this error for the testing population and note a projected overstatement of debtors of £152k that is above our reporting threshold.	We recommend that management should put in place appropriate procedures to ensure that the debtors are accounted for in the correct period	Management accepted and agreed upon the recommendation. There was a delay in posting receipts and as a result of our Icon system unable to post the amount, a debtor was raised to correct the receipts in the right financial year. The receipt had been recorded in Civica Icon but was not posted in the ledger, this posting was not done until April 2021. To ensure that this income was included in the 2020/21 accounts this was accrued. The overstatement of debtors and understatement of cash are both within current assets and overall will produce a nil effect and in the scheme of things not material. In terms of the reporting lines current asset line figure on the Balance sheet will not change in making this change.

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask officers to correct as required by ISAs (UK). Uncorrected misstatements increase in the total comprehensive expenditure in the CIES by £0.485m, decrease net assets by £0.485m,

		Debit/(credit) CIES	Debit/(credit) in net assets	Debit/(credit) prior year reserves	*Memo:* *Debit/ (credit) usable reserves*	If applicable, control deficiency identified
Misstatements identified in current year		£m	£m	£m	£m	
Understatement of accruals – Projected	[1]	0.485	(0.485)			Yes
Overstatement of estimated and sundry debtors						
Credit Debtors	[2]		(0.152)			Yes
Debit cash			0.152			
Total		**0.485**	**(0.485)**			

(1) Accruals were not raised at year end for certain invoices to the value of £445k despite that the services were provided before year end. Deloitte extrapolated this error to the testing population and noted a projected understatement of accruals of £485k.

(2) During our testing we noted that cash for a CIL debtor had been received before year end in March 2021, however the receipting per the bank statement was not recorded in the accounting system and so Debtors were overstated by 86k and cash understated by £86k. We extrapolated this error for the testing population and note a projected overstatement of debtors of £152k.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Our audit is now complete. We issued an unmodified audit opinion.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Value for Money reporting by exception

Our opinion will note that our Value for Money work is completed and will be reported in our Auditor's Annual Report.

We have no matters to report by exception in our financial statement audit opinion.

Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019.

Your annual report

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

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address: • Organisational overview and external environment; • Governance; • Operational Model; • Risks and opportunities; • Strategy and resource allocation; • Performance; • Outlook; and • Basis of preparation	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We 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. We note that the Narrative Report was updated for the implications of Covid-19.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 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 Audit 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, 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 work under the Code of Audit Practice in respect of Value for Money arrangements.

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

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.

Use of this report

This report has been prepared for the 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.

Deloitte LLP

Deloitte LLP

Birmingham | 11 December 2024

Appendices

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 ending 31 March 2021 in our final report to the Audit Committee.
Fees	There are no non-audit fees.
Non-audit services	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 members, officers and affiliates, and have not supplied any services to other known connected parties.

	2020/21 **£**
Financial statement [1]	37,585
Additional fee for changes in the current year [2]	82,973
Total audit fees	**120,558**

[1] The fee reflected here is the scale fee.

[2] Fees for additional audit work relating to changes to the work required on Value for Money, group audit considerations as a result of consolidation of the subsidiaries, updated auditing standards and Covid-19 procedures , as well as overall duration of the audit.

In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body.

Our approach to quality

FRC 2023/24 Audit Quality Inspection and Supervision report

Audit quality shapes our vision of the business we want to be, driving our priorities and defining our successes.

In July 2024, the Financial Reporting Council (“FRC”) issued individual reports on each of the six largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2023/24 cycle of reviews. We value the observations raised by both the FRC Supervision teams and the ICAEW Quality Assurance Department ("QAD"), both in identifying areas for improvement and also the ongoing focus on sharing good practice to drive further and continuous improvement.

We are proud that the results of our FRC inspections show that 94% (2022/23: 82%) of our public interest audits were rated as ‘good’ or ‘limited improvements’ and that 100% (2023: 100%) of our audits reviewed by the ICAEW’s QAD were assessed as good or generally acceptable.

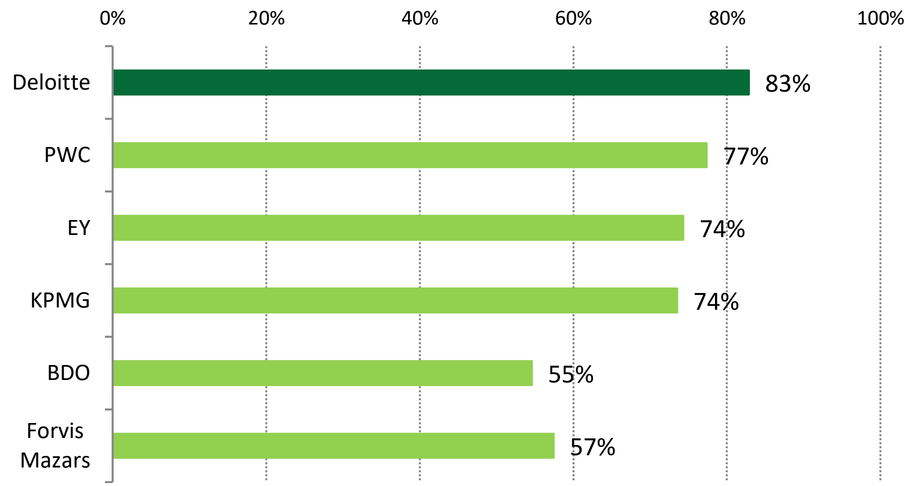
These sets of results reflect the continuous investment we are making and our commitment to acting in the public interest to deliver confidence and trust in business through our high-quality audits. We recognise we still have more we want to do to ensure that we consistently meet the high standards we expect of ourselves. We take inspection, system of quality management ("SoQM") and supervision focus areas seriously and place a significant level of resource and effort into understanding how we continually improve going forward.

We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year’s cycle.

We welcome the breadth and depth of good practice points raised by the FRC and ICAEW, particularly in respect of effective group oversight, contract accounting and the challenge of management, where we have continued to take action to support the high-quality execution of audit work.

All the AQR public reports are available on the [FRC's website].

Percentage of Tier 1 audits rated 'Good or limited improvements required' by AQR over the last five years



Our approach to quality

FRC 2023/24 Audit Quality Inspection and Supervision report - overall comments

The boxes below detail the FRC's overall comments and Deloitte responses as published in the overview page of the 23/24 public report.

The AQR's 2023/24 Audit Quality Inspection and Supervision Report on Deloitte LLP:

"Deloitte has continued to respond positively to and has made good progress on actions to address our previous findings. This has resulted in improvements which are reflected across the audit inspections."

"The percentage of audits inspected by the FRC requiring no more than limited improvements was 94%, which shows a continued improvement on the prior year. The equivalent results for FTSE 350 audits inspected was 100%. One of the audits we inspected was found to require significant improvements. The findings that contributed most to this year's inspection results related to the audit of impairment assessments. We have previously identified key findings and examples of good practice in this audit area. The firm should review the effectiveness of its actions to ensure greater consistency.

The overall results profile for inspections by the ICAEW was 100% classified as good or generally acceptable. The firm's internal quality monitoring results show a year-on-year improvement."

Deloitte response to Audit Quality Inspection key findings

"We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year's cycle."

The following page sets out our response to key findings in relation to the 23/24 cycle.

Review of the firm's system of quality management (SoQM):

"Deloitte has implemented ISQM (UK) 1, including monitoring and remediation processes, and completed its first annual evaluation of its SoQM. Deloitte has invested considerable effort into implementing its new system. The firm has already begun the iterative process of improving and refining it, including in response to our feedback. The firm needs to strengthen aspects of its SoQM, including certain elements of monitoring processes, and enhance its evidencing of its SoQM, especially its monitoring and annual evaluation processes."

Deloitte response to review of SoQM

"Audit quality is always front and centre and we believe that an effective SoQM is crucial for its delivery. ISQM (UK) 1 implementation facilitated a critical assessment and enhancement of our existing SoQM. On 31 May 2023, we were pleased to be able to issue our first conclusion on the effectiveness of our SoQM, being satisfied that our SoQM provides the firm with reasonable assurance that the objectives of ISQM (UK) 1 are being achieved. We have valued the independent review performed by the FRC, and the further objective insights this has brought. We have already taken action to address the matters raised by the FRC, improving the evidencing of the rigour of our responses in areas of judgement and working to standardise the capture of risks and responses. The environment in which we operate continues to evolve, and we remain focussed on identifying and investing in the changes required to keep our SQM effective."

Our other responsibilities explained

Fraud responsibilities and representations

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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

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 the risk of fraud in the recognition Covid-19 grant income, completeness of accruals and management override of controls as a significant audit risk.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

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 on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No significant concerns have been identified from our work