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Reigate and Banstead Borough Council

Report to the Audit Committee on the audit for the year ended 31 March 2020

issued on 11 May 2021 for the meeting on 18 May 2021

Contents

Introduction

The key messages in this report

I have pleasure in presenting our report to the Audit Committee of Reigate and Banstead Borough Council (the Council) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the committee on 9 September 2020.

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.

Status of the audit	We have completed our audit, subject to: • receipt of signed management representation letter; and • updating our review of events since 31 March 2020 through to signing. We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk and other areas of audit focus reported to you in our audit planning report.
Conclusions from our testing	• We have not identified any significant uncorrected audit adjustments or disclosure deficiencies. The version of the accounts presented to this committee has been amended for our proposed changes. • We have summarised any audit adjustments on pages 20 to 21. • We have considered the impact of the COVID-19 pandemic on our work – we include details on pages 6 to 8. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic • We identified findings or internal control deficiencies which have been included on page 17. • As detailed in our valuations work set out on pages 10 to 11, management's expert – Wilks, Head & Eve – included a material uncertainty clause in their valuation report. This is common to 31 March 2020 valuations in the sector. This wording is reflected in the financial statements and we draw attention to it in our draft auditor's report. Note that this is not a qualification of our opinion. • Based on the current status of our audit work, we envisage issuing 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.

Introduction

The key messages in this report (continued)

Financial Sustainability and Value for Money	• In the Comprehensive Income and Expenditure Statements (CIES), following agreed adjustments, the Council reported an accounting surplus of £4.3m for the year (2018/19: net loss of £3.9m) which included net gains of £3.1m (2018/19: net loss of £4.3m) in respect of re-measurement of the pension liability and gains due to property revaluation of £0.20m (2018/19: net loss of £3.1m). At the provision of service line the Council showed a net surplus of £1.0m (2018/19: £3.5m). At year end the Council had usable reserves of £63.6m (31 March 2019: £54.3m) and unusable reserves of £104.6m (31 March 2019: £112.1m). • Cash and cash equivalents held by the Council increased to £4.0m, from £3.8m as at 31 March 2019. • We did not identify any significant risks related to Value for Money and we do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • We have no significant matters to raise with you in respect of the Narrative Report which has been updated with our proposed suggestion to include further details in relation to COVID-19. We have not identified any significant matters in respect of the Annual Governance Statement.
Duties as public auditor	• We did not receive any formal queries or objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• The Council continues to be below the threshold for WGA reporting.

Our audit explained
We tailor our audit to your organisation

Identify changes in your business and environment

We note that the Council has an approved 5 year Medium Term Financial Strategy covering a period from 1 April 2021 to 31 March 2026. This looks to address the financial challenges posed by the reduction in current and future government funding.

We also note the Council has adopted its new 5 Year Plan (Reigate & Banstead 2020-2025 – 'the Plan') which places greater emphasis on using assets for community benefit and prioritises investment in communities. This informed the decision to review and re-examine the various categories of their assets, which resulted in management changing the classification of some assets, including reclassification of investment properties to PPE.

Scoping

The scope of our work reflects consideration of the impact of COVID-19, as detailed on pages 6 to 8. There have been no changes to the scope of our work as set out in the audit plan which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Other findings

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

Identify changes in your business and environment → Determine materiality → Scoping → Significant risk assessment → Conclude on significant risk areas → Other findings → Our audit report

Determine materiality

When planning our audit we set both our group and Council materiality for the audit at £1.7m based on 2% of the Council's gross expenditure projected to full year figures based on 9 months figures. We updated our group materiality assessment based on year-end figures to £2.0m (2018/19: £2.0m). This represents 2.0% of gross expenditure, 2.0% of gross income, 1.2% of net assets and 0.7% of total assets. We have not changed the Council's materiality set at £1.7m (2018/19: £1.9m). We report to you in this paper all misstatements above £85k (2018/19: £99k).

Significant risk assessment

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

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks from the work so far performed. The Committee members must satisfy themselves that management's judgements are appropriate and will need to agree arrangements to consider any significant findings arising from audit work which is not yet complete.

Our audit report

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

We expect to include an "emphasis of matter" paragraph in relation to material uncertainties around the property valuation.

COVID-19 pandemic and its impact on our audit

Requirements	CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is 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. As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.
Impact on the Council's reporting process	A thorough assessment of the current and potential future effects of the COVID-19 pandemic is required including: • A detailed analysis across the Council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves; • The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); • Any material uncertainties relating to the Council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; 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 have considered the key impacts on the business such as: • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in income. • The closure of facilities and premises.	We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide 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 has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and has required specific disclosure in the financial statements.	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 2020. The material uncertainty is disclosed in the Statement of Accounts and leads to an Emphasis of Matter in our audit opinion.
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 needed to be reviewed against the conditions and assumptions at the measurement date. This presents some difficulties because of the volatility of the market at the measurement date and the potential for there to be a lack of reliable observable inputs. This required additional consideration in our work on year-end valuations.	The material uncertainty noted above also includes Investment Properties.
Impact on pension fund investment measurement	As a result of the COVID-19 pandemic pension fund investments have been subject to volatility.	We engaged 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. The pension scheme auditor included an emphasis of matter paragraph in their opinion in respect of property assets and private equity assets. Due to the differing context of the Council and the pension scheme accounts, and the property assets being c.7% of total pension assets, we do not consider that an equivalent emphasis of matter paragraph is needed in our opinion. With respect to the private equity assets, the emphasis of matter reflected that 'stale' prices had been used in the pension scheme valuation. The impact of this is not material on the Council's accounts and we have included a £0.5m item in the schedule of unadjusted misstatements in respect of this.

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	Potential Impact on annual report and financial statements	Audit response
Expected credit losses	The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	The Council has increased its provisioning to 9.2% from 5% in response to the pandemic with a c.£0.2m increase in provisions. The increase of 4.2% was based on an economic index projection published by PWC for the second quarter of 2020.

Covid related income received pre year end	• There was one main receipt of income related to COVID-19 that was received pre 31 March 2020.
	    • **COVID-19 LA Support grant.** This was the first tranche of £1.6bn passed out to councils by MCHLG on March 27 2020.
	    • The Council received £1.5m. This was unringfenced s31 grant and without conditions. The total amount was recognised as a payable at year end.
		• We note that after discussion and reference to guidance these have been treated correctly in the updated statement of accounts.
		• The remaining COVID-19 related income receipts received after the year end will be considered as part of the 2020/21 audit because they will relate to that financial year.

Narrative and other reporting issues	The following areas need to be considered by councils 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	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.

Significant risks

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 did project both positive and negative divergences from budgets in operational areas. This was closely monitored and whilst some areas projected overspends, the underlying reasons were 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 that the Council obtained short term loan of £14.0m to support the working capital of the Council during the year.

We have also noted that the Council issued a loan of £10.9m to its subsidiary Greensand Holdings Limited to purchase Fishers Farm property for developments.

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.

Deloitte view

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.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's property assets and valuation of the pension liability as discussed elsewhere in this report. Other significant estimates include:

- Valuation of financial instruments. The Council recognised impairments of £1.3m on the loans issued to its subsidiary and joint venture/associates.
- The NNDR appeals provision, of which the Council's share is £2.5m (2018/19: £0.7m). The movements in the provision reflects a reduction in the rate of appeals.
- The allowance for impairments of over payments/receivables: Housing Benefit overpayments of £1.8m on a balance of £2.3m (2018/19: £1.9m on £2.5m); Council tax £2.1m on £4.6m (2018/19: £2.0m on £3.6m); and NNDR of £0.5m on £0.9m (2018/19: £0.2m on £0.5m). During the year the provision percentage for all debt within 12 months was increased from 5.0% to 9.2% due to the impact of COVID-19. All other debt are at 100% in line with previous years. The approach and conclusion appears reasonable.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result.

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.

Significant risks (continued)
Valuation of property assets

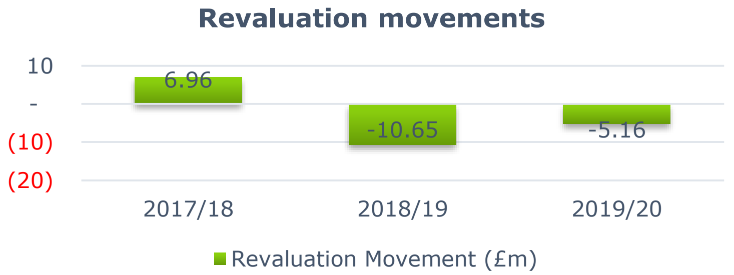
Risk identified
The Council is required to hold property assets within Property, Plant and Equipment ("PPE") and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

Per the latest draft financial statements, the Council held £139.1m of property and heritage assets at 31 March 2020, a decrease of £4.6m relating to a net revaluation loss and additions of £1.4m. The Council also held £45.5m of investment properties, which include a net revaluation loss of £0.1m and £0.1m of additions.

The Council's material assets are reviewed annually as at 31 December, with a market review at 31 March.
The Council's valuer had advised there was not evidence of a material change in value between the 31 December 2019 and 31 March 2020, but that due to the pandemic there was a material valuation uncertainty over property values at year-end, as discussed on the next page.

The investment properties are all revalued annually as at 31 December with a review at 31 March for significant movements.
For the remainder of the operational assets, the financial year to 31 March 2020 represented year five of the five year rolling programme in which the total assets of the Council ought to be revalued. The revaluation policy specifies that a full revaluation is carried out at a minimum every 5 years, however a full revaluation was not performed at year end. A total of c.£3.8m of the Council's property was not included in the year end valuation, which does not present a risk of material misstatement. Below is an analysis of the revaluation movements over the last three years:



Deloitte response

- We tested the design and implementation of key controls in place around the property 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 valuation.
- 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 at earlier stages in the year and the year-end.
- We tested revalued assets and re-performed the calculation of the movement to be recorded in the financial statements to check correctly recorded.
- We considered the impact of uncertainties relating to COVID-19 and the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

Deloitte view
We have not identified any significant issues from our testing of valuations. As discussed on page 13, the reclassification of assets has identified adjustments required to the Marketfield Way assets. This has been adjusted and reflected in the latest draft financial statements.

Significant risks (continued)

Valuation of property assets – Material Uncertainty due to COVID-19

Material Uncertainty due to COVID-19

The Council's valuer has included disclosures in relation to COVID-19 in their report including the extracts below:

In relation to the recent outbreak of the Novel Coronavirus (COVID-19) and the fact that the valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case.

This is a common feature of valuation reports prepared to 31 March 2020

Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. This can be seen in Note 1 to the accounts, an extract of which is included below:

The Council engages an external valuer in order to calculate valuations, useful lives and impairment reviews of its fixed assets in accordance with professional guidance. Revaluations for 2019/20 on other land and buildings with carrying value of £138.2m at note 17, heritage assets with carrying value of £0.9m at note 19 and investment properties with carrying value of £45.5m at note 20 from the valuers have been provided on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case

Impact on Audit Opinion

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure:

"We draw attention to notes 1, 17, 19 and 20 which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's other land and buildings, heritage assets and investment properties. As noted by the Council's external valuer, the outbreak has caused extensive disruption to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of other land and buildings; and investment properties at the balance sheet date. Our opinion is not modified in respect of this matter."

Other areas of audit focus

Defined benefits pension scheme

Background

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

The net pension liability has increased from £79.2m at 31 March 2019 to £80.1m at 31 March 2020 primarily as a result of movements in asset values and some changes in discount rate and inflation assumptions. This total includes the impact of the McCloud adjustments.

The Council's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. The 31 March 2020 position as currently calculated includes an element of the impact of McCloud. However, following the publication of the Ministry of Housing, Communities and Local Government (MHCLG) consultation in July 2020, a revision is required to be made to the previous McCloud allowance. The Council has not made an allowance for the recent MHCLG clarification on McCloud eligibility requirements. The actuary has confirmed this is following advice from their specialist advisors. Our specialists believe a past service cost estimated at c.£0.1m should be recognised in the year.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow).
No adjustments was made by the Council but our specialist have concluded that an additional liability of up to c.£0.6m should be recognised as an adjusting post year event.

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 the actuary, including benchmarking as shown the table opposite
- We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year.
- The pension auditor included an emphasis of matter paragraph in their opinion in respect of property assets and private equity assets (See page 7 for details). They also identified asset valuation errors due to 'stale' prices being used for these assets, and we have included a £0.5m reduction in assets in our error schedule for the Council's share of this impact.
- We have challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.30%	2.15% - 2.60%	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.90%	1.70%	Reasonable, slightly prudent
Salary increase (% p.a.) (over CPI inflation)	2.80%	Council specific	Reasonable
Pension increase in payment (% p.a.)	1.90%	1.70%	Reasonable, slightly prudent
Pension increase in deferment (% p.a.)	1.90%	1.70%	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22.10	21.80	Reasonable
Mortality - Life expectancy of a female pensioner from age 65 (currently aged 45)	24.30	23.20	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. We have also discussed the possible adjustments with management who have not corrected them and we have included on the uncorrected schedule. No other significant issues were identified.

Other areas of audit focus - continued

Property asset re-categorisation

Risk identified	The Council has reviewed the classification of its property assets, taking into account its new 5 Year Plan (Reigate & Banstead 2020-2025 – 'the Plan') which places greater emphasis on using assets for community benefit and prioritises investment in communities, informed the need for management to review and re-examine the various categories of their assets to meet the plan objectives. The re-examination and review carried has resulted in management changing the classification of some assets, including through the creation of new asset categories in the fixed asset register to reflect the most appropriate use or condition of the assets. This reclassification includes the identification of a number of additional surplus assets.
Our response	• We obtained an understanding of the overall approach to the re-categorisation. • We tested the appropriateness of the revised categorisation for a sample of assets, including consideration on the appropriateness of it being an in year change and not requiring a prior year restatements. • We have reviewed the current year fixed assets register and is applied consistently. • As part of our testing of asset valuations, we have engaged the Deloitte Real Estate expert to assess the appropriateness of the valuation basis change. • A total of £49.5m was reclassified from investments properties to other land and buildings. • From our discussion with management of the treatment of assets, issues were identified in the treatment of the Marketfield Way assets, with a number of assets demolished for redevelopment. Having reviewed the entries made for these assets when reclassified into assets under construction, management have agreed that adjustments are required for which elements of the value of assets should be retained as part of the cost of the assets under construction and which should be "disposed off" on demolition, and have adjusted the final accounts position to reflect this.

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

Other areas of audit focus - continued

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. We note that the NAO guidance indicates a low likelihood that COVID-19 forms a risk area impacting the assessment of arrangements for 2019/20. Rather this will form part of the risk assessment and evaluation for 2020/21. The response to COVID-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of COVID-19 during the 2019/20 financial year.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report including discussion with relevant officers and review of Council documentation including internal audit reports. We did not identify any further significant risks from our remaining risk assessment procedures.

Deloitte view

Based on the current status of our audit work, we envisage issuing an unqualified "value for money conclusion".

The expected form of our conclusion is as follows:
On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2020 we are satisfied that, in all significant respects, Reigate and Banstead Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Our audit report

Matters relating to 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

We anticipate that our opinion on the financial statements will be unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

We include details on the other matter paragraph in relation to the material uncertainty over property valuations on pages 10 to 11 of this report.

There are no other 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.

Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

We anticipate that our conclusion on the Council's arrangements will be unmodified.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

We anticipate that our conclusion in this area will be satisfactory.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement. We are still in the process of reviewing the final draft of the statement of accounts.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; - Basis of preparation; and - Future sustainability and risks to this posed by COVID-19.	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.

Other significant findings

Internal control and risk management

During the course of our audit we have identified 2 internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Full valuation of property assets at year end	The revaluation policy specifies that a full revaluation is carried out at a minimum every five years. c.£3.8m of the Council's property assets due a revaluation were not included in the revaluation in the year. Although this does not present a risk of material misstatement given the proportion of assets omitted. We recommend documenting the rationale for any assets excluded from valuation cycles and considering whether any adjustments required.	
Differences noted on the values of some assets between the Valuation report and the Fixed Asset register	We identified inconsistencies on the value of some assets between the valuation report and the Fixed asset register, with an absolute difference of £0.4m, due to some assets being omitted from the initial valuation report. This has been addressed through a supplementary report. Although this impact is not significant in year, a more significant difference or other errors could have arisen. We recommend that management should put in place a second review of all valuation entries, including allocation by asset, before they are posted into system.	

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

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 Performance, Governance and Audit 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.

Deloitte LLP

for and on behalf of Deloitte LLP

11 May 2021

Appendices

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements decrease the surplus on the CIES by £1.4m, decrease net assets by £1.4 and have a £'nil impact on usable reserves.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	*Memo: Debit/ (credit) usable reserves £m*	If applicable, control deficiency identified
Misstatements identified in current year						
Pension assets valued using old prices	[1]	0.5	(0.5)	-	-	
Additional pension past service cost in respect of the McCloud judgements	[2]	0.1	(0.1)	-	-	
Recognition of pension liability in respect of the Goodwin judgements	[3]	0.6	(0.6)	-	-	
Impairment of the investments in Greensand Holdings Limited	[4]	0.1	(0.1)			
Recognition of credit loss on debtor balance	[5]	0.1	(0.1)			
Total		**1.4**	**(1.4)**	**-**	-	

(1) The pension auditor has communicated an error in the fund's private equity and property assets, where valuations were not updated for final year-end valuations on the grounds of materiality. We estimate the Council's share of the total error as £473k.
(2) Following the MHCLG consultation in July 2020, it is expected that additional liability estimated to £100k,` be recognised in respect of the McCloud judgements. See page 12.
(3) Recognition of additional pension liability estimated at £578k in respect of the Goodwin judgements. See page 12.
(4) Impairments charged on the investments in Greensands Holdings Limited of £113k.
(5) Provision of £118k made on the POCA debtor balance for the year.

Disclosure deficiencies

We have reviewed the accounts and annual report, and have passed recommendations on these to management. Management have implemented these recommendations, and therefore there are no uncorrected disclosure deficiencies.

Audit adjustments
Corrected misstatements

The following corrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Corrected misstatements decrease the surplus on CIES by £5.2m, decrease net assets by £7.7m, and have a £2.5m impact on usable reserves.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m
Reclassification of long term debtor balance from the short term debtor balance	[1]		0.1 (0.1)	
Reclassification of pension cost from the other operating expenses	[2]	2.9 (2.9)		
Reclassification of deferred income from the payables account	[3]		0.6 (0.6)	
Recognition of S106 contribution payable to SCC	[4]		(2.5)	2.5
Correction of prior year S106 capital allocation	[5]			1.4 (1.4)
Impairments of the Marketfield Way assets	[6]	5.2	(5.2)	
Transfer of impairments charged from the usable to the unusable reserves	[7]			5.2 (5.2)
Total		**5.2**	**(7.7)**	**2.5**

(1) Included in the short term debtor balance was a Community Infrastructure Levy of £142k which will due after 12 months from the year end.

(2) The pension cost of £2,861k was recorded in other operating expenses instead of being classified as part of personnel costs in note [2]. Management have adjusted in both the current year, and the comparative value of £2,415k.

(3) Cash received in advance from residents for Garden waste subscription of £632k was recorded as a creditor in note 28 rather than deferred income.

(4) S106 contribution of £2,526k payable to Surrey County Council was omitted from the year end liability and instead recorded in the subsequent financial year when it was paid. This affected the Capital grant unapplied and short term creditor balances.

(5) Section 106 reserves totalling £1,336k were applied to RBBC Capital Schemes in error for the financial year 2018/19 and subsequently corrected in financial year 2019/20. The account affected were the Capital adjustments and Capital grant unapplied account and has a nil impact on the net assets.

(6) As communicated on page 13, Marketfield Way assets was demolished and has been fully impaired and the entry is posted to to write off the cost of the assets from the books of the council as at the year end.

(7) This is to transfer the impairments charged from the capital adjustments account to the general fund account

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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council and its 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 capitalisation of expenditure 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 including the review of the internal audit reports.

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

Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2019/20, in line with the scale fee provided by the Public Sector Audit Appointments (PSAA) is £37.5k as broken down below. We are in discussions with the Council on fee variations to reflect the cost of the audit. During 2019/20 we performed work on the 2018/19 Housing Benefit grant for which the fees were £14k. No other non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

	Proposed £ (exc VAT) 2019/20	Actual £ (exc VAT) 2018/19
Code audit fee	37,585	37,585
Total audit	**37,585**	**37,585**
Additional fee to conclude the audit*	15,000	-
Additional fee to conclude the audit**	-	25,000
Total fees	**52,585**	**62,585**

** The additional fee for 2019/20 is currently being assessed.

* Please note that the additional fee is subject to approval by PSAA

Independence and fees - Continued

The 2018/19 Code audit fee is the original PSAA Limited published fee. It does not reflect the volume of audit work that may be necessary to conclude the audit

The additional fee for 2018/19 represents c40% of the additional costs incurred by Deloitte when concluding the audit for 2018/19. They relate to additional time spent on:

- auditing adjustments to the original draft accounts;
- addressing inconsistencies between notes and primary statements;
- ensuring full compliance with Code of Practice IFRS requirements; and
- addressing errors in the asset valuation report and the fixed assets register.

We are required to submit a formal request to PSAA Limited to vary the fee to include this charge.