



Epping Forest District Council

Report to the Audit and Governance Committee on the audit for the year ended 31 March 2022

Issued for discussion for the meeting on 19 September 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 report to the Audit and Governance Committee of Epping Forest District Council (the Council) for the 2021/22 audit. The scope of our audit was set out within our planning report shared with management and this Committee.

Status of the audit

Our audit is nearing completion and at the date of issue of this report with the following key matters still outstanding:

- Concluding on the potential impact of the land disposal transaction agreed in 2022/23;
- Completion of our internal quality assurance procedures;
- Receipt of a signed management representation letter; and
- Our review of events since 31 March 2022 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.

Our report presented to the Audit Committee in March 2024 covered reporting on the majority of our work performed, this report serves as an update report and therefore the majority of the pages of our report are consistent with the previous report.

Status of our Value for Money audit

Our Value for Money work is ongoing. The NAO have issued supplementary guidance (SGN02) which makes it possible to issue VFM commentary in one document, which covers two years. We intend to issue a combined Auditors Annual Report which will cover the conclusions of our VFM work for 2021/22 and 2022/23 explicitly.

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

Conclusions from our testing

- We have not identified any significant uncorrected audit adjustments or disclosure deficiencies.
- We have summarised audit adjustments noted on page 24.
- We have 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 provided a status of the internal control deficiencies which have been included from page 17.

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.
- We have no significant matters to raise with you in respect of the Narrative. We also have no significant matters in respect of the Annual Governance Statement.

Duties as public auditor

- We had not received 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

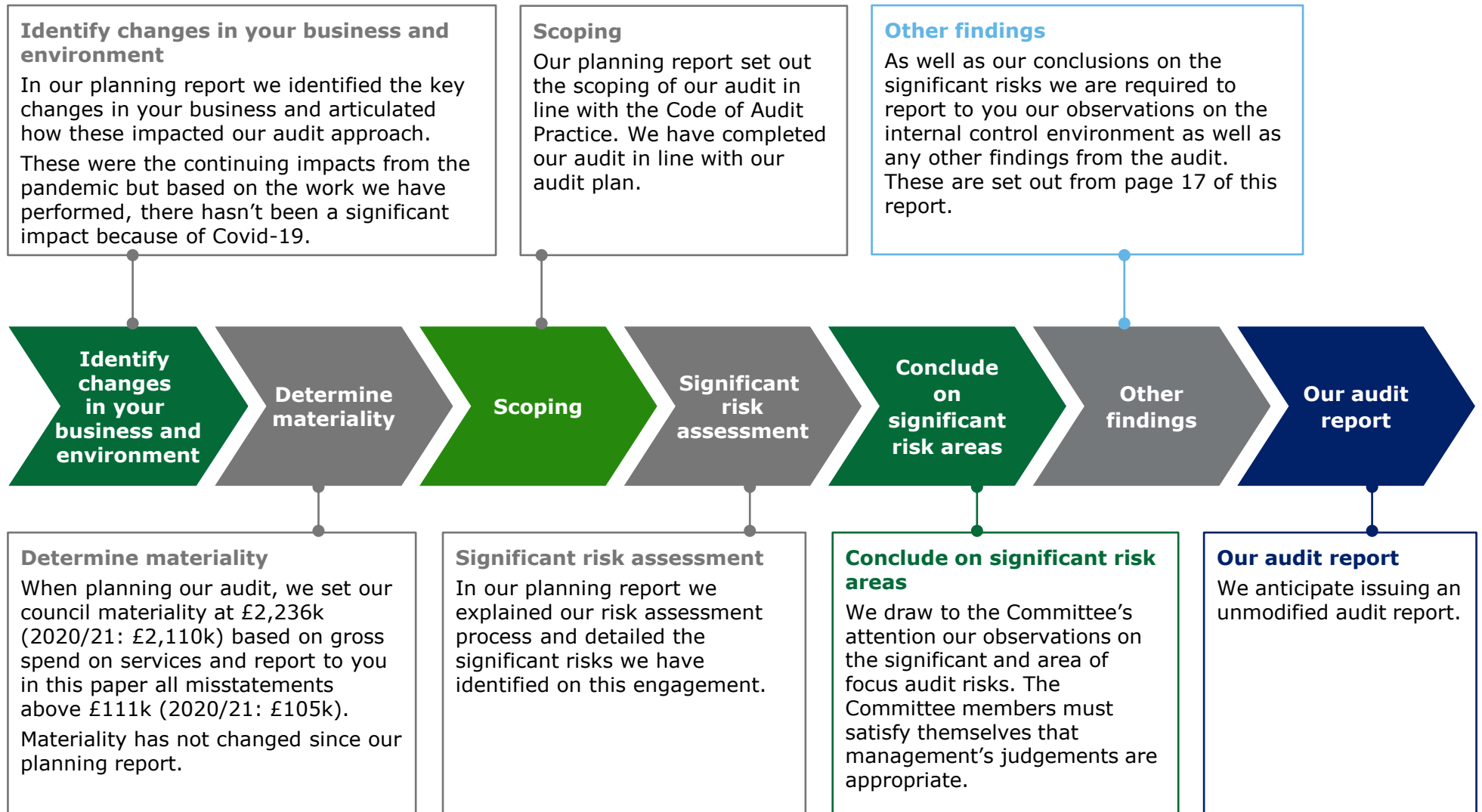
We are required to report our overall audit opinion and key issues from our audit to the National Audit Office (NAO) following completion of the audit. However, the NAO have not yet confirmed for 2021/22, bodies which may be subject to additional procedures for reporting to the NAO to gain comfort over the WGA.

Therefore, we are not able to confirm completion of the audit in this regard.

Mohammed Ramzan
Audit lead

Our audit explained

We tailor our audit to your organisation



Significant risks

Risk 1 – Property Valuation – Fixed assets and investment properties

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

The Council holds Council Dwellings & Garages, Other Land & Buildings and Investment Properties at 31 March 2022 which are required to be recorded at current or fair value at the balance sheet date, the significant risk identified therefore applies to these classes of assets.

Valuation of property assets and investment property is a significant risk area due to the inherent degree of complexity, estimation and potential variability in the valuation methodologies that can be applied.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation.
- We used our valuation specialists to review the methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs.
- Our specialists have also evaluated the methodology applied in and the outcomes of the full valuation of the Council Dwellings category, performed as at 31 March 2022.
- We tested a sample of key asset information used by the Council’s valuers in performing their valuation, such as gross internal areas, back to supporting documentation.
- Reviewed assets not subject to valuation in 2021/22 in order to confirm that the remaining asset base is not materially misstated; and.
- Reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

Deloitte view

We have not identified any material misstatement

Significant risks (continued)

Risk 2 – Revenue expenditure incorrectly capitalised

Risk identified

The Council has a substantial capital programme of General Fund (£72.4m) and HRA (£39.506m) during the year. Though capital expenditure remains below the budget for both General Fund - £25.676m (2020/21: £49.260) and HRA £21.414m (2020/21: £17.930m), the total capital expenditure remains material to the accounts.)

Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore a potential incentive for officers to misclassify revenue expenditure as capital as will impact the surplus/deficit recorded by the Council at year-end.

Deloitte response

- We tested the design and implementation of controls around the capitalisation of costs.
- We tested a sample of capital items in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

Deloitte view

We have not identified any material misstatement

Significant risks (continued)

Risk 3 - Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a presumed 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 Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected as significant risk or areas of audit focus; valuation of the Council's properties, pension liability, infrastructure assets and capital expenditure. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

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.
- 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 did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

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

We have used data analytics software 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 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. We have challenged management on the provision of Expected Credit Loss (ECL) on the Qualis loans, provided at £1,067k on £59.4m loan in FY22 compared to £1,946k in FY21 on £41.2m loan. We do not consider reduced ECL involves any management bias or could result in a material misstatement.

We have not identified any instances of management override of controls in relation to the specific transactions tested. We however noted instances in which journals were prepared by a senior staff member and reviewed by a junior staff member, see detailed finding under page 18.

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 estate and the valuation of the pension liability, as discussed elsewhere in this report.

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.

Other areas of audit focus

Valuation of infrastructure assets

Background

Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost.

The accounting code requires that where a component of an asset is replaced:

- the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and
- the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

Auditors have identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS in 2020/21 due to information deficits.

CIPFA/LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting.

This has resulted in the Department for Levelling Up, Housing and Communities (DLUHC) agreeing to provide a statutory instrument, which would help resolve some of the issues identified, whilst a permanent solution was being sought. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022, was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. The main purpose of the statutory instrument was to allow local authorities to make the assumption that any infrastructure asset additions recognised are replacing components that have been fully depreciated. The Statutory Instrument (SI) is applicable to all financial years up to 2024/25, where the audit certificate for the authority is still open.

Risk identified

The following concerns were raised by local authority auditors in relation to the treatment of infrastructure assets in local authority statement of accounts:

- Derecognition of components – concerns were raised that local authorities were not derecognising infrastructure assets after they had been replaced by additions. This was due to the derecognition provisions of the Code being difficult for local authorities to apply for infrastructure assets, as authorities do not have detailed records of infrastructure asset components in place.
- Gross book value and accumulated depreciation – as a result of local authorities not disposing of infrastructure asset components when they were replaced, the gross book value and accumulated depreciation balances included in the property, plant and equipment disclosure notes for infrastructure assets are overstated. This is because components that are no longer in use are still included in both balances.
- Infrastructure asset disaggregation – concerns were raised that the records held by some local authorities do not sufficiently disaggregate the infrastructure asset balance within the authorities fixed asset register, so as to allow both the authority and auditors, to understand the actual types of infrastructure assets held by the authority. For example, it was noted that a number of authorities nationally include one line entitled “infrastructure assets” in the fixed asset register, with no further information available regarding what is included in the balance.
- Useful economic lives – it was identified that authorities often have limited support for the useful economic lives used in relation to infrastructure assets.

Other areas of audit focus (continued)

Valuation of infrastructure assets

Risk identified (continued)

These issues were all raised with CIPFA and the Department for Levelling Up, Housing and Communities (DLUHC). We believe the above concerns to be relevant to the Council, as it has a net book value of £5.2m (2020/21: £4.9m) in relation to infrastructure assets as at year-end. The current year net book value reflected above is before the adjustment made in relation to the application of the new guidance and statutory instrument.

Deloitte response

We have completed the following procedures:

- On derecognition of components: The Statutory Instrument (hereafter refer to as 'SI') stipulated where a local authority replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component ("the relevant amount") the local authority shall either, determine the relevant amount as nil; or calculate the relevant amount in accordance with the accounting practices identified in regulation 31.
- Gross book value and accumulated depreciation: The audit team has reviewed the infrastructure assets disclosure included in the Council's revised financial statements.
- Infrastructure Asset disaggregation: The audit team has challenged the disaggregation of infrastructure assets as reflected on the fixed asset register and concluded that the disaggregation is reasonable. The audit team reviewed and challenged the determination of the useful economic lives applied to infrastructure assets by the Council and confirmed the rationale for the determination of the useful economic lives to be appropriately supported and reasonable in light of information reviewed.

Conclusion

Following the conclusions of the work performed as detailed above, we are satisfied that infrastructure assets are fairly stated with no material misstatements identified.

Other matters

Defined benefits pension scheme

Background

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

As at 31 March 2022, the Council had a £44.1m, pension liability on its balance sheet. Pension assumptions are a complex and judgemental area, and the calculation is reliant on accurate membership data provided to the actuary.

We have thus identified this as an other area of audit focus to report to the Audit & Governance Committee as a key area of management judgement.

For the LGPS (Local Government Pension Scheme), it is possible to identify Epping Forest District Council portion of the assets and liabilities, and the Local Authority Accounting Code of Practice requires full disclosure of the Council's share of the LGPS within its financial statements. There are a large number of judgments inherent in the calculation of the scheme liability, including future inflation rates and appropriate discount rates. Small movements in these rates can have a material impact. Additionally, there are judgements implicit in allocating Epping Forest District Council's share of the assets of the scheme.

Deloitte response

We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed 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 are reviewing the assurance obtained 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.
- We reviewed the disclosures within the accounts against the Code to confirm compliance thereof.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.60%	2.60 - 2.85%	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.8%	2.50-2.90%	Reasonable
Salary increase (% p.a.) (over CPI inflation)	4.20%	Council specific, represents real salary increase of 1% above CPI	Reasonable
Pension increase on payment (% p.a.)	3.20%	3.00 - 3.30%	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21	23	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.50	24.70	Reasonable

Deloitte view

We have not identified any material misstatements.

Other matters (continued)

Group Accounts

Component	Significant to group	Scope
Epping Forest District Council	Yes	Scope B
Qualis	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 to a group materiality. A full audit of the subsidiary companies have been performed by the subsidiary auditor.

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.



Value for money

Our work is reported in our Auditor's Annual Report

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.

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 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;
- considered the Council's financial performance and management throughout 2020/21; and

We have also obtained an understanding of:

- The changes in governance processes as a result of Covid-19;
 - The changes to control processes as a result of Covid-19; and
 - The processes and controls put in place in order to deal with the Covid-19 business support schemes.
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Value for money (continued)

Our work is reported in our Auditor's Annual Report

Status of our work and significant weaknesses

We will combine our Value for Money work for the financial year ended 31 March 2022 and financial year ended 31 March 2023. Our VfM work for the year ended 31 March 2022 is complete however, the work relating to financial year ended 31 March 2023 is ongoing. We will issue a combined Auditor's Annual Report for both years.

As at this report date, 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.

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

Our audit is now complete. We have 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 other matter paragraph.



Value for money by exception

Our opinion notes that our Value for Money work is in progress and will be reported in our combined Auditor's Annual Report for the financial year ended 31 March 2022 and 31 March 2023.

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



Irregularities and Fraud

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

In doing so, we 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	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none">- 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.	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit and is not otherwise misleading.</p> <p>We note that the Narrative Report was updated for the implications of Covid-19.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.</p>

Control observations

We note that there has been some improvement in the preparation of the financial statements and the related processes despite the disruptions caused by the pandemic. However, the improvement plan that management are implementing is still ongoing.

Area	Observation	Deloitte Recommendation	Management response and remediation plan
<p>Preparation of Valuation reports</p>	<p>Our real estate specialist team have identified areas for improvement to enhance reporting on the Councils valuation of assets:</p> <ul style="list-style-type: none"> • Beacon properties be inspected internally (where possible for void/vacant properties) and externally on an annual basis. • Documentary records are kept of discussions between the Council and their external valuer in the future. • Judgements need to clearly articulated and there should be inclusion of valuation reasoning and rationale within the valuation report. • Enhancement of the valuation report on sections such as valuation rationale and reasoning to support conclusions. • The Valuer has not confirmed the Council's Componentisation Policy and how the relevant assets should be componentised. In addition to providing the weighted average remaining useful life, the valuer should provide the estimated remaining useful life of each of the major components in the future. • Missing information on sales details – Recommendation that the Valuer provides further detail around their central database and is able to refer to notes from its agents call/screenshots, from listing pages as evidence. • The Valuer to clearly outline their methodology and how they have considered the garages relative to the comparable information they have sourced to arrive at their Beacon value and subsequent value of the variant's values, along with providing evidence of the yields used within their calculations. <p>The observations above are not expected to have a material impact on the overall valuation but should be addressed as part of instructing the valuers in future years.</p>	<p>Management should communicate and discuss the noted insights with their valuers to enhance the valuation process.</p>	<p>We will take the recommendation into consideration and request that the valuers include the more detailed information. The next valuation will be for 2023 24.</p>

Control observations – Current period audit (continued)

Area	Observation	Deloitte recommendation	Management response and remediation plan
Long overdue reconciling items	We identified items that were included in the bank reconciliation that date back to FY19/20. These items relate to £5,000 worth of adjustments posted as a result of a difference between the amount recognised as collected within 'IZETTLE' (a payment system used at the Museum), and the amount actually banked. This system is now obsolete and no longer used.	We recommend management to process the necessary journal entries to reconcile the long overdue reconciling items.	Agreed. The necessary journal entries were posted in 2022-23 which enabled the reconciliation.
Segregation of duties	<p>When reviewing the journal preparation and review process, we noted instances in which journals were prepared by senior staff members and then reviewed and approved by junior staff members. Management attributed this to high staff turnover and indicated that, in those instances, the senior staff member was the only experienced member capable of preparing the journals, leaving the junior members with the role of approving them.</p> <p>In our review of the bank reconciliation process, we were not provided with evidence of preparer and reviewer sign-offs for sampled bank reconciliations. Management indicated that they were aware of this deficiency in the bank reconciliation process and were planning to implement a summary page for bank reconciliations going forward to evidence preparation and review.</p>	Procedures should be implemented to ensure preparation and review is undertaken by appropriate individuals in a timely manner and is clearly documented. This is essential for the operating effectiveness of these segregation of duties controls.	The recommendation will be implemented as advised.
Related party	The Council has a process of obtaining declaration of interest forms from Councillors and Officers at the year-end and maintain a central register of interest declared by individuals. As part of our related party work and procedures performed, we noted four former councillors who had not submitted their declaration of interest forms even though they held post during the year 2021/22. We did not receive any evidence that EFDC chased for their outstanding returns. We also noted five councillors who did not submit their declaration of interest forms. EFDC had sent email reminders of deadline for submission and requested them to submit their outstanding returns. However, those returns remained outstanding as of May 2022 and no follow up or action was taken thereafter to maintain complete and accurate register of interest from all related parties.	The Council should review the process of obtaining declaration of interest returns, ensuring any outstanding returns are formally followed up with a view to attaining 100% compliance.	We note and support the recommendation and will consider incorporating the feedback in our future communications with members on this matter. However, extensive efforts have been made in the past which have been - to a large extent - successful in substantially increasing the member response rate (84% in 2021-22).

Control observations – Current period audit (continued)

Area	Observation	Deloitte recommendation	Management response and remediation plan
<p>Housing Revenue Authority (HRA) recharges and bad debt written policies</p>	<p>We noted that the Council does not have documented policies relating to the accounting of HRA recharges and bad debts.</p> <p>The HRA recharge system is largely judgemental with no formal guidance on how much, or on what basis/principal management should be making the recharge. For bad debts provisions, the Council used year on year calculated percentage rates. We also note that some of the prior year bad debt provision workings were not available upon request due to the Council personnel who prepared workings no longer employed by the Council.</p> <p>Whilst our review and calculations did not highlight any material concerns, the subjective nature of HRA recharges and bad debt provision exposes the Council to the risk of biases in determination of amounts to recognise in a financial year.</p>	<p>A formal policy should be developed to guide the accounting of HRA recharges and bad debts.</p>	<p>The recommendation will be considered in line with good practice.</p>
<p>Asset verification</p>	<p>We could not verify the existence of 2 assets included in the fixed asset register: 1. Riverbank works with an NBV value of £224k; and 2. HRA infrastructure assets 11/12 with an NBV value of £120k. Based on discussion with the Council management, these assets were historical assets which were added on an old finance system; hence they are not linked to specific properties.</p>	<p>We recommend that management performs a physical asset verification for assets included in the fixed asset register and necessary amendments passed.</p>	<p>A rolling programme of physical verification checks will be considered.</p>

Control observations – Prior period audit

During the course of prior period audit, we identified internal control findings which we have summarised below for information along with an update based on our 2021/22 audit.

Area	Observation	Status
Preparation of Valuation reports	<p>Our real estate specialist team have identified areas for improvement to enhance reporting on the Councils valuation of assets:</p> <ul style="list-style-type: none"> • The Councils external valuers report provided is consistent with the minimum reporting requirements of the RICS Valuation Standards, although lacks detail as to valuation rationale and reasoning to support the conclusions on value which has necessitated a number of clarification questions being raised. • The valuation report is not clear as to the diligence undertaken on valuation inputs when sourced from the Council. This should be addressed in future years to ensure clarity. • We observed in our selected assets review that limited evidence was presented by the valuer with limited rationale for the valuation inputs adopted. It is accepted that the valuer may need to apply judgement however such judgements should be more clearly articulated with valuation reasoning and rationale to provide greater clarity in line with the RICS Valuation Standards. • There is no commentary regarding how the value and nature of the portfolio has changed year-on-year to assist the reviewer. A summary outlining sales, demolitions and additions should be in future years. • There is still an element of ambiguity in respect of the development land valuations. Our recommendation from previous years – providing the supporting information regarding the proposed tenure for the affordable accommodation, the valuation methodology adopted or the source of the build cost assumptions – have not been included within the report. • The DVS should clearly outline their methodology and how they have considered the garages relative to the comparable information they have sourced to arrive at their Beacon value and subsequent value of the variant's values. <p>The observations above are not expected to have a material impact on the overall valuation but should be addressed as part of instructing the valuers in future years.</p>	<p>Open. Noted comments raised in the year under audit.</p>
Failure to use CIPFA disclosure checklist	<p>We noted that the Authority had not made use of the Chartered Institute of Public Finance and Accountancy (CIPFA) disclosure checklist (the 'checklist') for the financial year ended 31 March 2022. This checklist is helpful in identifying reporting requirements introduced in the then financial year and is useful in cross referencing to the code of practice on local authority. Further, the checklist helps in identifying any departures from the code and its useful in ensuring that material departures are adequately disclosed while immaterial disclosures are excluded where necessary.</p>	<p>Open. Checklist use has not been implemented in the year under audit.</p>

Control observations – Prior period audit

During the course of prior period audit, we identified internal control findings which we have summarised below for information along with an update based on our 2021/22 audit.

Area	Observation	Status
Review, approval of working paper and updating of accounts	<p>A number of key working papers and reconciliations provided by management in the first instance needed improvement as they did not reconcile to the trial balance or contain the required level of detail. Whilst we note that in most instances subsequent workings have been provided by management which are correct, we recommend that a process of review and approval of all key working papers is embedded in the year-end process to implement an appropriate level of quality control.</p> <p>The working papers provided audit were of a higher quality compared to the 2020/21 and 2019/20 audit. However, improvements are still required in this area.</p> <p>We noted several instances where management was reluctant to correct noted misstatements in the financial statements contributing to delays in the finalisation of the audit process.</p>	<p>Ongoing. Noted improvement and management responsiveness in the year under audit.</p>
Infrastructure assets	<p>We challenged Management judgement on classification of items as Infrastructure assets (IA). We noted two categories of Assets included as IA that did not meet the definition of IA.</p>	<p>Open. Reclassification adjustments not processed in the year under audit.</p>
Depreciation of fixed assets	<p>From the work done, we noted 13 assets whose depreciation had not been calculated since inclusion into the Fixed Asset Register (FAR). Upon further review, we noted that the isolated items with a total depreciation amount of £73,189 had not been effected since inclusion in the FAR. We noted that the Capex system was not calculating the depreciation for these specific assets as it had not been instructed to by ticking off the depreciation box. We however note that the amounts associated with the assets is not material to the financial statements.</p>	<p>Open. Depreciation of the noted items was not corrected in the year under audit. Management indicated that corrections were processed the year ended 31 March 2023.</p>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Governance 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 Statement of Accounts and Narrative Report;
- Our internal control observations; and.
- Other insights we have identified to the date of issuing our report.

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.

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 & Governance 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.

Deloitte LLP

Birmingham | 10 September 2024

Appendices



Audit adjustments

Under UK auditing standards (ISA (UK) 260) we are required to provide a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial' which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As mentioned earlier within the report, details of all adjustments greater than £111k are shown below:

		Debit/(credit) CIES	Debit/(credit) in net assets	Debit/(credit) reserves	If applicable, control deficiency identified
Uncorrected audit differences		£m	£m	£m	
As per the IAS19 Pension Fund Auditor's Report, contributions per IAS19 data and the contribution schedule provided by the Council differ by £0.272m	[1]	(0.272)	0.272		No
Existence of two historical assets, which were on the asset register from the old finance system could not be verified, hence not linked to specific properties.	[2]	0.345	(0.345)		Yes
Total		(0.073)	(0.073)		

Corrected misstatements

Incorrect reversing journals of prior year grant resulted in additional revenue recognition – Grant income (Factual error)	[3]	0.507			No
Incorrect reversing journals of prior year grant resulted in additional revenue recognition – Grant income (Factual error)	[3]	(0.507)			No
Incorrect accrual journal for Qualis income reversed – (Factual error)	[4]	0.740	(0.740)		No

[1] These finding has also been identified by the Pension Fund Auditor of Essex County Council Pension Fund. This difference relates to recognised timing differences between payroll and the pension scheme.

[2] Assets relate to Riverbank Works - £224k and HRA Infrastructure Works 11/12 - £120k, where management was not able to verify the location. The projected misstatement is £664k which is below materiality.

[3] Incorrect reversing journals were posted in current year for prior year grants (Wet Pub Grant, LRSG and Phase 1 Business Grant) which were fully expensed and resulted in additional revenue recognition in current year. Net effect on CIES is nil.

[4] Incorrect accrual posted in current year for Qualis income for which payment was received by the year-end.

The uncorrected misstatements are not material and do not have a material impact on the accounts.

Audit adjustments (continued)

Disclosure misstatements - Corrected

The following disclosure misstatements have been identified and corrected up to the date of this report.

Disclosure misstatements

1. Disclosure: Local Council Tax Support scheme grant of £135k was recognised within New Homes Bonus. Both grants have now been separately disclosed within 'Note 27 Grants and Contribution'. There is no accounting impact.

2. Disclosure: Covid-19 Grant amount of £196k was classified as non-Covid grant. There is no impact on 'Note 27 Grants & Contribution' since Covid-19 grants are not separately disclosed however, Financial Statement 'Narrative' changed as a result. There is no accounting impact.

3. Disclosure: Termination benefit was incorrectly disclosed at £120k within Financial Statement note 25 which should be £433k. There is no accounting impact.

4. Disclosure: Secondment charges and other income related to Qualis of £740k has been reclassified from Qualis income stream to Contract and Technical Services category on CIES. There is no accounting impact.

5. Disclosure: Qualis loan interest of £2,080k was included within long-term debtors within Note 14. This has now been reclassified within Note 16 as short-term debtors. This impacts current and non-current debtors on balance sheet.

6. Disclosure: Qualis loan interest of £2,080k was included within Qualis income steam on CIES. This has now been reclassified within Financing and Investment income line on CIES. This does not impact surplus / deficit on provision of services but impacts net cost of services.

7. Disclosure: Council tax rebate grant for 2022-23 received in advance of £5,172k was classified as Sundry Creditors within Note 18. This has now been reclassified within Government Departments and Other Local Authority line within Note 18. There is no accounting impact.

Audit adjustments (continued)

Disclosure misstatements - Uncorrected

The following disclosure 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).

Disclosure misstatements

1. The Council has not included the estimation uncertainty of the United Kingdom leaving the European Union (“Brexit”) and of Ukraine war on its financial performance.
 2. The Council has not updated for the latest impact of the Coronavirus pandemic on the property portfolio.
 3. The Council under Note 6 to the financial statements, expenditure and funding analysis, has disclosed adjustments between the funding and accounting basis but has not provided explanation for each column as required by the Code.
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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.
Non-audit fees	There are no non-audit fees.
Independence monitoring	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 Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

	2021/22	2020/21
	£	£
Financial statement [1]	49,797	49,797
Additional fees – previously proposed [2]	57,500	70,200
Additional fee following completion [3]	TBC	36,812
Total audit fees	107,297	156,809

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

[2] Additional fees proposed (letter dated 30 July 2021) to reflect increased costs for the Authority’s audit, change in scope for Value for Money, Impact of Covid-19 and transition to consolidated accounts. The majority of these are expected to be recurring in 21/22.

[3] 20/21 – Following completion of our audit, additional input has been required in a range of areas including Pensions valuation, technical accounting issues, quality and preparation challenges and materiality change. 21/22 – Additional input will be confirmed following completion 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, we will discuss the final position with the Council on completion of the 2021/22 audit.

All additional fees are subject to agreement with PSAA.

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 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 the, Property valuations, revenue expenditure incorrectly capitalised 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



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