

Members of the Accounts & Audit Committee
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Dear Members

Conclusion of pending matters– Audit completion report

Following on from our recent meeting and as required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that were marked as outstanding within the Audit Completion Report dated 20 November 2020.

The outstanding matters and the conclusions reached are detailed below:

Matter	Conclusion reached
Property, Plant and Equipment (PPE) and Investment Property (IP) valuations	<p>We have completed our work in relation to our review of a sample of asset valuations undertaken by the Council's valuer on PPE and IP.</p> <p>From the 78 assets reviewed in our sample, a number of errors in the valuations were identified resulting in 19 PPE and IP assets being undervalued by a total of £10.7m, and 20 PPE and IP assets being overvalued by a total of £3.4m. This results in a net under valuation of £7.3m.</p> <p>We have extrapolated the results of our sample testing across the population of assets revalued. This indicates an unadjusted error of £6.7m understatement in respect of PPE and £0.7m overstatement in respect of IP. As these are not material management have decided not to amend the financial statements.</p> <p>We set out in Appendix 1 a recommendation arising from our work in this area. Appendix 2 confirms the unadjusted errors arising from our work.</p>

Pension liability	We have completed our work on the updated pensions liability and associated disclosures. There are no issues to report to the Committee.
Cash & cash equivalents	We have received the bank confirmation for the two schools that were outstanding. We have completed our work on cash and cash equivalents. There are no issues to report to the Committee.
Whole of Government Accounts (WGA)	We have now received the National Audit Office's Group Instructions for local authority 2019/20 audits and completed the work necessary in respect of these. Our work on the Council's WGA consolidation pack remains outstanding and will be completed in due course. We will issue our audit completion certificate when this work is complete.
Post balance sheet events	Our post balance sheet events review is now complete. There are no issues to report to the Committee.
Review and closure procedures	We have completed our final review and closure procedures, including review of the Annual Governance Statement. There are no matters to bring to your attention.

We have provided at Appendix 2 the final schedule of adjusted and unadjusted misstatements, which are updated versions of the schedules included in our Audit Completion Report dated 20 November 2020. I would be grateful if you can ensure the unadjusted misstatements schedule is returned with the management of representation letter with the required confirmation.

If you wish to discuss these or any other points discussed at the meeting then please do not hesitate to contact me.

Yours sincerely

Karen Murray

Karen Murray
Partner

Cc Graeme Bentley, Corporate Director of Finance and Systems

Appendix 1 – Control deficiencies

Description of deficiency

Our sample testing of PPE and IP valuations identified 39 assets with incorrect valuations due to errors in the underlying data used by the valuer. These included:

- Incorrect floor areas used;
- Incorrect Build Cost Index rates used;
- Incorrect obsolescence factors used; and
- Incorrect rental income figures used to calculate IP valuations.

The number of errors identified indicates a lack of appropriate quality checking of the valuations prior to being incorporated into the financial statements.

Potential effects

A lack of robust quality checks has the potential to lead to material errors in the Council's financial statements.

Recommendation

We recommend management review the identified errors with their valuers to ensure these are corrected in the 2020/21 financial statements. In addition, we recommend management build in quality checks of the valuation to the accounts preparation process, including spot checks of underlying data used to support the valuer's calculations.

Management response

Following the recommendations in the 2018/19 audit report, work was undertaken in late 2019 and early 2020 jointly between the Council, the Council's external valuers and the auditors to agree expected sample sizes, format of reports and level of back up detail to be provided to improve the 2019/20 audit process. This included a sensitivity analysis undertaken by Council officers on receipt of the valuation information to address queries with the valuers in advance of the audit.

This agreed process was impacted by Covid-19 (in March/April in particular), plus the external valuations team experienced staffing issues which adversely effected their ability to access and verify some of the information. The sample sizes and level of detail requested during the audit in July 2020 was also significantly higher than had been expected and for which resources were initially allocated. These issues led to the delays in providing and verifying the valuations data during the audit and has contributed significantly to the issues highlighted above.

In light of the audit findings, the Council has undertaken a further process review with its external valuer and the auditors, and a number of improvements have been agreed and implemented for the 2020/21 accounts. In particular, the valuer has recruited an additional member of staff to manage their processes and provide a single, consistent point of access for the Council and the

auditors going forward. The expectations and timetable have been communicated clearly to the valuer and weekly progress meetings are currently taking place with an escalation process if problems arise.

As part of the agreed process, the valuer is providing the back-up information to support the valuations required, which includes calculations, workings on land values and obsolescence rates being used. To quality check these figures Council officers have set up a spreadsheet that enables the following checks to be undertaken and queried in advance of the audit:

- Calculations are accurate;
 - Ensure obsolescence rates are being applied correctly;
 - Consistent approach to fees are being taken;
 - Consistent build rates are being used across same class of assets;
 - Consistent componentisation elements;
 - Highlight any significant changes in valuations that we need to understand and evidence provided.
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Appendix 2

Unadjusted Misstatements

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Cash and Cash Equivalents		353	
	Cr: Short Term Creditors			353
	Dr: Gross Income	353		
	Cr: Gross Expenditure		353	
Cash and Cash Equivalents are understated due to a creditor balance being included rather than it being disclosed as part of the creditor liability.				
2	Dr: Property, Plant and Equipment		6,715	
	Cr: Revaluation Reserve			6,715
The Council's Property, Plant and Equipment balance is understated due to errors identified in our sample testing of valuations. The amount above is the extrapolated impact of the errors.				
3	Dr: CIES	655		
	Cr: Investment Property			655
The Council's Investment Property balance is overstated due to errors identified in our sample testing of valuations. The amount above is the extrapolated impact of the errors.				

Unadjusted disclosure errors:

Note 41 Grant and Other Income includes Other Grants and Contributions £756k which is an 'expenditure' amount when this note covers income. This is because it is a net figure including grants and amounts applied in year and the amount applied in year for Community Infrastructure Levy is greater than the amount received in 2019/20. Disclosures of an overspend against some schemes is not consistent with the purpose of this note which is to set out the application of grants to fund expenditure. Management have not amended this.

Adjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Other Long Term Liabilities - Pensions			6,825	
Cr: Pension Reserve				6,825
Dr: General Fund (via MIRS)	6,827			
Cr: Net cost of service		2,758		
Cr. Re-measurement of net defined benefit/liability		4,069		

As a result of the Actuary providing a revised IAS19 report to take account of additional information regarding recent legal cases (McCloud and Goodwin). There are corresponding adjustments to the group accounts, the Movement in reserves statement, the Cash flow statement and associated notes. The £2k difference above is due to rounding.

Disclosure amendments

As a result of our work, a number of amendments have been made to the other statements, notes and disclosures within the financial statements. The most significant of these were reported as part of our Audit Completion Report. There are no further amendments to bring to your attention.