



SURREY HEATH BOROUGH COUNCIL

Annual Audit Letter
Year ended 31 March 2020

EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of our audit for the year ended 31 March 2020.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Steve Bladen - Key Audit Partner

BDO LLP

23 December 2024

Audit conclusions

Audit area	Conclusion
Financial statements Council	Disclaimed opinion
Use of resources	Unmodified opinion
Audit certificate	Issued alongside our opinion

FINANCIAL STATEMENTS

Audit opinion on financial statements

We issued a disclaimed audit opinion on the financial statements on 23 December 2024.

This means that we are unable to conclude that the Authority's financial statements for the year ended 31 March 2021 are free from material misstatement. The Accounts and Audit (Amendment) Regulations 2024 ('the Regulations') require the Authority to publish audited financial statements for the year ended 31 March 2020 by 13 December 2024 ('the backstop date'). The backstop date has been put in law with the purpose of clearing the backlog of historical financial statements. The conditions created by backstop arrangements have resulted in us not being able to obtain all the necessary audit evidence upon which to form an opinion since there was insufficient time to perform all necessary audit procedures by the backstop date. These audit procedures include, but are not limited to, testing of income and expenditure, property, plant and equipment, investment property, the Cash Flow Statement and journals and review of IT general controls. As a result, we are unable to conclude that the Authority's financial statements for the year ended 31 March 2020 as a whole are free from material misstatement. We have concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be both material and pervasive.

Final materiality

Materiality for the Council has been set at 2% of gross expenditure for the period and is outlined in the adjacent chart. For reporting purposes, we consider misstatements of less than £40,000 (2018: £100,000) to be trivial unless the misstatement is indicative of fraud.

In the prior year we set overall planning materiality at £4.5 million being 2% of long-term assets. We also applied a lower level of specific materiality to income and expenditure transactions that impacted revenue resources. This was calculated on the basis of 2% of gross expenditure and was set at £1.4 million.

Material misstatements

We did not identify any material misstatements.

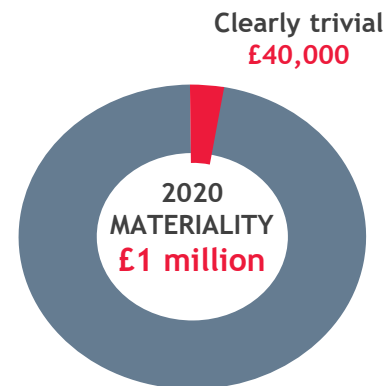
Unadjusted audit differences

We did not identify any audit differences that have not been adjusted for.

Use of resources

We issued an unmodified opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Based on the work completed to date, we are satisfied that, in all significant respects, Surrey Heath 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.

The Code defines a number of additional powers and duties which auditors are required to use in certain circumstances. We can confirm that that no additional reporting powers have been used.



FINANCIAL STATEMENTS

Audit Risks

We assessed the following matters as being the most significant risks of material misstatement in the financial statements, or those where we consider there to be an elevated risk of material misstatement. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

The backstop date has created time constraints that have impeded us from completing all necessary risk assessment procedures. Therefore, we have not been able to meet the objective of ISA (UK) 315 *Identifying and Assessing the Risks of Material Misstatement*, which is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. Had we met the objective of ISA (UK) 315, we may have identified additional risks to those listed below.

#	Audit Risk	Risk Description
1	Management override of controls	Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk
2	Revenue and expenditure recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be relevant to the existence (recognition) of revenue grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement. We also consider the risk to be relevant to the existence (recognition) of fees and charges income</p> <p>In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements</p>
3	Allowance for non-collection of receivables	The Council recognises an allowance for the non-collection of receivables primarily in respect of council tax, non-domestic rates, and housing benefit overpayments, and other miscellaneous income. Management assesses each type of receivable separately in determining how much to allow for non-collection. The COVID-19 pandemic, and the resulting economic downturn, increases the risk of default by debtors. Historical collection rates will offer only an indication of potential future losses, and consequently the estimation of potential losses will require a significant degree of estimation

FINANCIAL STATEMENTS

Audit Risks

#	Audit Risk	
4	Valuation of non-current assets	<p>Surrey Heath Borough Council applies a five-year rolling revaluation programme to its land and buildings, with surplus assets and investment properties revalued annually. A market review is performed at the end of the financial year to determine whether material movements may have occurred since the valuation date. Property revaluations and the market review are undertaken by Surrey Heath Borough Council's external property advisors.</p> <p>Due to the significant value of Surrey Heath Borough Council's land and buildings, there is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year-end.</p>
5	Valuation of net pension liability	<p>There are risks around both the gross pension asset and the gross pension obligation, which together determine the net pension liability recognised in Surrey Heath Borough Council's balance sheet.</p> <p>The gross pension asset comprises a variety of investments, including those which we consider to be 'harder to value' because there are no observable inputs (such as an active market for the investment). This increases the estimation uncertainty associated with the value of these investments, which include property, private equity and other managed funds.</p> <p>The valuation of the pension liability is a complex calculation involving significant judgements and assumptions. The actuarial estimate of the net pension liability uses information on current, deferred and retired members and applies actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.</p>

Work performed and results

The backstop date has created time constraints that have impeded us from completing all necessary procedures in response to the risks identified. We were therefore unable to obtain sufficient, appropriate audit evidence in respect of this risk.

USE OF RESOURCES

Audit Risks

Audit conclusion on use of resources We set out below the risks that had the greatest effect on our audit strategy. Based on the work completed to date, we are satisfied that, in all significant respects, Surrey Heath 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.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	<p>The financial environment in which the Council operates continues to be challenging and presents a number of risks to the financial sustainability of the Council. The Council's Medium Term Financial Strategy at the time the audit plan was drafted identified a savings gap of £2.6 million over the period 2020/21 - 2023/24</p> <p>Delivering the necessary savings to deliver a balanced budget will be challenging and is likely to require difficult decisions around service provision and alternative delivery models. There is a risk that this will not be achieved, impacting on the financial sustainability of the Council.</p> <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">Reviewed the Council's decision making process in relation to the approval of its budget and Medium-Term Financial Strategy, in particular the quality of the information provided to Members;Reviewed the assumptions within the Council's Medium Term Financial Strategy, including the reasonableness of the cost pressures and income assumptions; andTested a sample of the savings schemes to assess the level of delivery/benefit realisation, and the assumptions made in respect of subsequent years where those schemes deliver recurrent savings.	<p>Our use of resource work is still in progress however the work we have done to date shows that the Council's updated MTFS shows funding gap of £6.3 million over the MTFS period to 2026. Gap mainly as a result of a fall in commercial property income and the end of the Government's New Homes Bonus scheme, leading to a loss of grant. For 2021 the MTFS identifies a budget gap of £1.5 million with a one of savings proposal of £1.088 million and use of reserves to close the gap. Although the levels of reserves expected to be used to fund the budget gap in 2021 is not significant in comparison with the reserve balance at year end it is important that reserves are protected and not be seen as the fall back option for overspends and budget pressures.</p> <p>The key assumptions built into the MTFS include; An increase in Council Tax in each year of £5.00 at Band D (the maximum allowed under legislation without holding a local referendum), annual increase in the Council Tax base of 0.4% (the national baseline for housing growth), Business rate growth of 2.0% per annum (Government inflation target over the medium-term), New Home Bonus to end after 2021/22.</p> <p>Based on the work to date the Council has an understanding of the budget requirement in the coming years and has arrangements in place to identify and manage the delivery of required savings.</p>

USE OF RESOURCES

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Governance/informed decision making Financial statement preparation	<p>Our audit of the Council's 2018/19 financial statements, which were prepared during the 2019/20 financial year, identified a large number of misstatements. This included a number of material misstatements, prior period adjustments, and other non-trivial adjustments. We also noted a number of omissions and internal inconsistencies within the draft financial statements that we would have expected to have been identified and resolved by internal quality checks. Additionally, we noted a number of weaknesses in the working papers prepared by officers to support the financial statements.</p> <p>We recognise that the Council has taken action to address these weaknesses and secure improvements in the preparation and presentation of the 2019/20 financial statements. We will assess the effectiveness of the actions taken by the Council.</p> <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Reviewed the arrangements put in place to improve the quality of the draft financial statements; and• Reviewed the consistency of the financial statements with underlying working papers and assessing the quality of those working papers.	<p>We have noted some improvement in some of the working papers prepared to support our audit, however, there were areas such as bank and cash and provision for doubtful debt working papers where they were not prepared alongside the financial statements. This, and the Council's reliance on interim staff to support our audit, led to delays in the completion of audit work.</p> <p>We do however acknowledge the challenges of working remotely and the impact of Covid on the Council's ability to turn around some of our requests for evidence.</p> <p>We also recognise that in recent years the Council has taken steps to strengthen capacity within the finance team and improve working papers available to support financial statements.</p>

REPORTS ISSUED AND FEES

Fees summary

	Fees (£)		Independence safeguards	Impact on independence
	Year ended March 2020	Year ended March 2019		
Audit fees	To be confirmed	35,247	None required	N/A
Additional fees	To be confirmed	48,228	None required	N/A
Non-audit services:				
Certification of housing benefits subsidy claim	23,000	11,500	None required - agreed upon procedures work with no impact on financial statements audit.	None
Total fees	To be confirmed	95,075		

Communication

Reports (dated)	Presented to Committee
Audit Planning Report	31 July 2020, Audit Standards and Risk Committee
Audit Completion Report	26 November 2024, Audit Standards and Risk Committee
Annual Audit Letter	

Independence

We confirm that the firm, and the engagement team including other BDO network firms conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and the IESBA Code of Ethics and are independent of Surrey Heath Borough Council.

Details of services, other than audit, provided by us to Surrey Heath Borough Council during the period and up to the date of this report are set out in the table below. We have not identified any threats to our independence arising from the provision of these services.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

Fee summary

Public Sector Audit Appointments (PSAA) are currently reviewing the fee for an audit that is subject to a disclaimer of opinion because of the statutory backstop date. We will confirm these fees once this information is available



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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