Grant Thornton

The Audit Findings for Elmbridge Borough Council

Year ended 31 March 2022

Elmbridge Borough Council

24 March 2023

Contents

Your key Grant Thornton team members are:

Paul Cuttle
Director
T +44 (0) 20 7728 2450
E paul.cuttle@uk.gt.com

Raymund Daganio
Audit Manager
T +44 (0) 20 7728 3086
E Raymund.L.Daganio@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and Audit and Standards Committee.

Name : Paul Cuttle

For Grant Thornton UK LLP

Date : 24 March 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Elmbridge Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was performed remotely during September-November. Our findings are summarised on pages 5 to 14. We have identified corrected and uncorrected adjustments to the financial statements. These adjustments are detailed in Appendix A.

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion (see Appendix C) or material changes to the financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our audit report will be unqualified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by no more than three months after the date of the opinion on the financial statements. This is in line with the National Audit Office's revised deadline.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. As at writing, we have not identified a risk of significant weakness. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report by no more than three months after the date of the opinion on the financial statements.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit and Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the Council based on a measure of materiality considering each as a percentage of the Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have completed our audit of your financial statements. We will issue unqualified audit report as detailed in Appendix C.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Amount (£)
Materiality for the financial statements	2.19m
Performance materiality	1.64m
Trivial matters	0.109m

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	**Commentary**
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals ; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • obtained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified significant issues in respect of this risk.
The revenue cycle includes fraudulent transactions Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Our judgement is that the significant risk at the Council relates to the improper recognition of grants with terms and conditions attached. We will therefore target our audit work in this area of the revenue. We note from our initial discussions with management, that significant COVID-19 funding has been received during 2021/22. We will specifically consider this funding stream as part of our consideration of grants with terms and conditions.	We performed the following procedures to address the risk: • tested a sample of grant income to underlying evidence of award to check that revenue has been recognised in line with any terms and conditions attached to the funding • requested management to prepare an analysis of all COVID-19 funding received in year, along with the proposed accounting treatment for each funding stream. We selected a sample of COVID-19 funding, review evidence of award to check with terms and conditions and concluded on whether management's treatment of the funding in the financial statements is appropriate. • reviewed and discussed with management accounting estimates relating to revenue recognition. Our audit work has not identified any issues other than the disclosure error on grants that management has agreed to correct (refer to Appendix A).

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition PAF Practice Note 10 In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	We have: • inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspected a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; and • investigated manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure. Our audit work has not identified significant issues in respect of this risk.
Valuation of land and buildings You revalue your land and buildings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in your financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into your asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. We have not identified significant issues as a result of the procedures performed. We have however raised an uncorrected misstatement and recommendation on the valuation of land and buildings. Refer to Appendix A.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability Your pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£74.1 million in your balance sheet) and the sensitivity of the estimate to changes in key assumptions. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • obtained assurance from the auditor of Surrey County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work has not identified issues in respect of valuation of the pension fund liability other than the unadjusted overstatement of £560k in pension fund net liability. Refer to Appendix A.

2. Financial Statements - key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	**Summary of management's approach**	**Audit Comments**	**Assessment**
Valuations of land and buildings and investment properties	Other land and buildings revalued comprises £33.8m of specialised assets which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£43.5m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Bruton Knowles to complete the valuation of properties as at 1 April 2021 on a cyclical basis. 74% of total assets were revalued during 2021/22. The Council's investment property has a value of £99.9m as at 31 March 2022. All Investment properties have been valued at fair value at year end. The valuation of properties valued by the valuer has resulted in a net increase of £15.4m for other land and buildings and £7.3m for investment properties. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 1 April 2021, considering industry average indices and rental income to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to property's value. After applying indices, depreciation and impairment, the total year end net carrying value of Other Land and Buildings was £101.5m a net increase of £16m from the 2020/21 (£85.5m) while Investment properties was a net increase of £7.3 from 2020/21 (£92.6m).	The Council has engaged Bruton Knowles for the valuation of land and buildings and investment properties. We have considered and completed the following in the course of our audit: - assessment of management's expert; - Impact of any changes on the valuation method; - consistency of estimate against Gerald Eve report; - reasonableness of movement in estimates; - adequacy of disclosure of estimate in the financial statements; and - evaluated classification of investment properties. Based on the valuation report, the valuer has not reported material valuation uncertainty for both other land and buildings and investment properties due to quantum of market evidence that support the valuation. As noted in Appendix A, the net impact of the uncorrected audit adjustments is undervaluation on land and building by £160k which suggests that overall, management's estimation process is cautious.	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability</td>
<td>The Council's net pension liability at 31 March 2022 is £60.3m (PY £74.1m) comprising the Surrey County Council Pension Fund. The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.
The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £19m net actuarial gain during 2021/22.</td>
<td>We have considered and completed the following in the course of our testing:

Assessment of management's expert
Assessment of actuary's approach taken, based on the full valuation as at 31 March 2020 to confirm reasonableness of approach.
Use of PwC as auditors expert to assess actuary and assumptions made by actuary – the table compares your Actuary's assumptions

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.70%</td><td>2.70%–2.75%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>3.20%</td><td>3.15%- 3.30%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>4.10%</td><td>3.30%-4.30%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>22.1</td><td>20.1 -22.7</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>24.5</td><td>22.9-24.9</td><td>●</td></tr>
</table>

Completeness and accuracy of the underlying information used to determine the estimate
Impact of any changes to valuation method
Reasonableness of the Council's share of LPS pension assets.
Reasonableness of increase/decrease in estimate
Adequacy of disclosure of estimate in the financial statements

</td>
<td>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</td>
</tr>
</table>

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation was requested from the Council.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to various financial institutions and other local authorities for bank and investment balances. This permission was granted and the requests were sent.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We will issue an unqualified audit report in this respect – refer to Appendix C.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council did not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification closure of the 2021/22 audit of Elmbridge Borough Council in the audit report, as detailed in Appendix C, due to outstanding VFM work.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by no more than three months after the date of the opinion on the financial statements. This is in line with the National Audit Office's revised deadline.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses from our initial planning work as reported in May 2022 audit plan.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	£51,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £51,750 in comparison to the total fee for the audit of £62,862 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Audit Adjustments and Recommendations

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	Review of valuer's report We have seen constant engagement between the external valuer and the Council via both oral conversation and email exchanges however based on the result of our procedures performed on OLB and investment properties valuation, we noted various errors in the valuation which raises question on the precision of management review process. For OLB, we noted the following errors (also refer to slide 23 for further details): - Incorrect inclusion of purchaser's cost on the valuation of an operational asset. This was a confirmed error by the external valuer. - Incorrect use of build cost rates on three of our samples. This was a confirmed error by the external valuer. - Differences on the valuation as at 1st April 2022 and net carrying amount as at 31 March 2022 which resulted in £961k undervaluation of OLB. For investment properties, the net impact of errors is below our triviality threshold but relate to errors of different nature hence recommendation was proposed: - £44k overstatement of Albany House arising from the omission of capital expenditure in comparing valuation movement. *……….cont'd on the next slide*	The Council has process in place to document understanding of the valuation report from the external valuer however, we recommend this to be revisited to ensure that appropriate challenge is made and evidenced in one place in order to prevent errors on the valuation. This can be achieved by: ▪ R1. Stringent process to ensure methodologies of the external valuer are well understood. This includes check of accuracy of inputs and assumptions used in the calculation. This would help avoid clerical errors that we noted on the valuer's calculations ▪ R2. We understand that the Council has active engagement with the external valuer however we suggest challenges on the assumptions undertaken on a timely manner and should be evidenced by email. We've seen a few email correspondences but not for all properties. ▪ R3. In terms of the movements between the 1st April valuation report and 31st March net book value, the Council has procedure to assess whether the movement is material however we noted that materiality was not clearly defined. The impact on the overall valuation should be considered rather than looking at the difference as a percentage of the asset being valued (e.g. percentage change could be so little but the actual figure maybe material).

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Audit Adjustments and Recommendations

Assessment	Issue and risk	Recommendations
	Review of valuer's report, cont'd - We have noted a rounding error which caused an overstatement of £140,000 for one of the samples. The valuer have calculated the net value at £6,258,227 and rounded it up to £6,400,000 (instead of £6,260,000). We have consistently noted in the valuer's workings that net values are rounded up to nearest £10k - which appears inconsistent for this sample. - we have noted that the capital value of most of the properties in this portfolio have been valued by multiplying the rental income with the perpetuity factor. We have challenged this methodology and therefore the external valuer revisited the calculation for the portfolio. Changes were made in the factor used for some properties which led to an increase in valuation to £4.85m (from £4.82m). This resulted in undervaluation in investment properties by £30,000. - For one of the investment properties, lease ends on 13 March 2035 - the lease term is for 17 years and 11 months however there is a tenant break after 12 years 11 months date; the valuer should have assumed this as the 'term certain'. We have evaluated the financial impact of this error in capitalisation period which resulted in an overvaluation of the asset by £80k. - For all samples, we noted that the agents fees and legal fees deducted in the valuation are inclusive of 20% VAT. The error resulted in overstatement of buyer costs, which in turn, caused an understatement in the investment property values. The error in including VAT as part of the buyer costs resulted in an understatement of £292,713.	**Management response:** R1. The council's Estates team will build on improvements made to the management review processes with the valuers to ensure errors with valuations can be picked up sooner. The errors are not always obvious and have resulted primarily from resource and time pressure on the part of the valuers. For reasons outside the council's control there has been year on year personnel change within the valuers' organisations, and this has led to a lack of consistency of approach in the valuations. This has also been raised with our current valuers and we are confident that their internal processes are being improved so that any errors are minimised. In addition, earlier engagement with auditors will ensure any issues can be dealt with in a timely manner. R2. Regarding the email correspondence, there has been significant email exchange and also reviews on every single report (draft reports individually annotated by Council officers and referred back to valuers). Due to issues with the individual valuer, the number of emails between the council and the valuers was excessive and not practical to send to the auditors. However, the comments are noted for future reference. R3. It might not have been recorded as a definition in our working papers but we worked on adjusting any property where the movement was <> £500k. In addition we reviewed the total movement difference that would be left and was comfortable with a figure of around £1m. We will review and document the level of materiality we consider acceptable for the OLB area of the accounts as part of closing 2022/23. The majority of the £961k difference relates to those properties which we didn't make any adjustment for as it was considered the NBV at 31 March for each of these was not materially different. Where we did feel an adjustment was required there were still some minor variations between the NBV 31.3.22 and the valuation report at 1.4.22 due to the reasons mentioned by the auditors which were not included in the NBV report at the time the adjustments were calculated. For issues noted on investment properties, these are noted and will be scrutinised in the next year's valuation.

A. Audit Adjustments and Recommendations, cont’d

Assessment	Issue and risk	Recommendations
🟦	**Authorisation of journals entry** The process used by the Council only allows the accounting technicians to post journal entries for areas they are assigned to. There is no internal control to stop an accounting technician to post journals for particular areas they are not assigned to. To post journals authorised individuals prepare a journal and this is posted by the accounting technician. We note the Council cannot provide a report to show who has requested a journal as all journals will show as being posted by one of the accounting technicians. So any accountant in the finance team can request the posting of a journal without a financial limit and there is no requirement for this journal to be checked by someone else and approved. We note any misposting should be picked up via management’s regular review of actual performance versus budgets for income and expenditures. However, there is no preventative control to minimise the risk of fraud and error of journals being posted to the system. It is not uncommon for Councils with small finance teams to allow users to be able to prepare and approve journals but in these instances there are usually compensating controls e.g. a monthly review of journals with the same preparer and reviewers. However the Council cannot do this as all the journals are posted by the accounting technicians on behalf of others. This has resulted in us extending our samples. At the time of writing, our journals testing is in progress where we noted 20 out of 50 samples that have the same preparer and approver.	If it is not practical to use a workflow system to prepare and approve journals the Council should consider what compensating controls could be implemented. The Council could determine this should only apply to journals over a certain value to limit the admin required. Such a control could be asking accounting technicians to only process journals with appropriate email approval showing a preparer and reviewer sign off. As this is a manual control there would need to be a periodic spot check or other review to ensure this is being applied. **Management response:** Your example of such a control “asking accounting technicians to only process journals with appropriate email approval showing a preparer and reviewer sign off “I would suggest this is what we currently do with the signing of the PDF copy of the journal sheet. In future we will include the initials of the initiator as part of the unique journal number to enable a report to be run to show who has requested the journals. Using this report we can then undertake periodic checks to ensure the current manual control over posting journals is being consistently applied.

A. Audit Adjustments and Recommendations, cont'd

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

As of date, we have not identified any adjusted misstatements which we are required to report to those charged with governance.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
The other operating income was netted within the CIES but in Expenditure and Funding Analysis analysed by nature, the income and cost was shown separately which resulted in difference in both the income and expenses disclosed. There is however no impact on the total balance.	Audit adjustment proposed to correct error in Note 28. **Management response** Agreed to amend.	✓
The Note 23 Usable Reserves of the financial statements includes a statement that capital grants unapplied holds the balance of grants received where the conditions of grant entitlement have not yet been met. This is not aligned with the CIPFA code as capital grants unapplied are those that have met conditions and are just waiting to be incurred.	Audit adjustment proposed to correct error in Note 23. **Management response** Agreed to amend.	✓
Minor consistency errors noted on the review of financial statements	**Management response** Agreed to amend.	✓

A. Audit Adjustments and Recommendations, cont’d

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit & Standards Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £k	Statement of Financial Position £k	Impact on total net expenditure £k	Reason for not adjusting
1. Net undervaluation on Other land and Building (OLB) We identified multiple errors in the valuation of other land and building with a net impact of £160k undervaluation of other land and building. Details of the errors follow: a. Errors in the calculation on the valuation of Civic Centre We noted that passing rent period was not considered in the calculation of reversionary rent being a portion of the valuation calculation. The present value of perpetuity factor was therefore wrong as also confirmed by the external valuer. Further, major portion of Civic Centre being an operational asset is currently occupied by the Council. Based on our review of the valuation, the purchaser's cost was incorrectly accounted for in the valuation methodology. The valuer confirmed that this was an error given the nature of this asset. Finally, based on our understanding of the property, there is a volatility on the valuation of the property and it would be appropriate to consider a higher yield rate used in the calculation of reversionary rent and given the condition of the property, it is more appropriate to use the back end range of yield rate of 6.75%. After correcting these errors, we noted an overvaluation on Civic Centre by £685k. b. Incorrect build costs used in the calculation of valuation properties Based on the result of our procedures, we noted errors in the calculation of valuation for three of the properties we tested	-	PPE – 160 Reserve – (160)	-	The Council has not adjusted as this is below materiality and added the following comments: a. Noted and discussed with valuers, purchasers costs will be excluded from this asset valuation going forward, together with appropriate yield. b. These are being rectified where appropriate as agreed with the valuer. c. Noted.

A. Audit Adjustments and Recommendations, cont'd

Detail	Comprehensive Income and Expenditure Statement £k	Statement of Financial Position £k	Impact on total net expenditure £k	Reason for not adjusting
1. Net undervaluation on Other land and Building (OLB), cont'd arising from the use of incorrect build costs. The external valuer recalculated the valuation for these properties which resulted in net overvaluation in the properties of £187k. Similarly for car park samples, we noted a £10k undervaluation on car park valuation due to outdated build costs used in the calculation. We have extrapolated this variance on the remaining properties valued on DRC method which resulted in net undervaluation of £81k. Net impact of the error in build cost is overvaluation on Other land and Building (OLB) by £116k. c. Difference between the 1st April 2022 valuation and 31 March 2022 net book value of OLB The Council did not undertake a full revaluation process for the 1st April 2022. They used these valuations to assess where a year end adjustment should be made so that the net book value as at 31 March 2022 is not significantly different to the 1st April 2022 valuation. There are some general reasons for the differences and also some specific ones for individual properties such as additions during the year that have not been included on the valuation report, depreciation expense, properties classed under VPE (not Other land and Building "OLB") and the actual differences on valuation that the Council feel is immaterial and therefore not adjusted. As the 1st April 2022 is the latest valuation report and therefore represents the best estimate, we have used the assumptions and source input used in the calculation. We obtained the total of actual differences between the carrying amount of the assets as at 31 March 2022 per fixed asset register versus what's on the 1st April 2022 and after considering factors mentioned above that have not been considered in the valuation and noted a total undervaluation of £961k of OLB.	See previous slide	See previous slide	See previous slide	See previous slide

A. Audit Adjustments and Recommendations, cont'd

Detail	Comprehensive Income and Expenditure Statement £k	Statement of Financial Position £k	Impact on total net expenditure £k	Reason for not adjusting
2. Understatement on the pension fund asset The Surrey Pension Fund auditors identified £28m undervaluation of level 3 investments due to due to timing differences of valuation between 31 December 2021 and 31 March 2022. The pension fund account has not been amended for the timing difference as it is not material. The calculated difference allocated to the Council based on 2% asset share over the total pension asset is £560k. In effect, the net pension fund liability is overstated by the same amount as at 31 March 2022.	560	560	(560)	The Council has not adjusted as this is below materiality.

B. Fees

We set out below our fees charged for the audit.

Audit fees	Final 2020/21	Proposed 2021/22
Statutory Audit (excluding VAT)	£62,362	£62,862

Similar to 2020/21, the Council will receive a grant to support additional fees relating to new accounting standards and the change to the VFM audit. The Council's grant will be £20,291.

In the prior year the PSAA approved the distribution of surplus funds relating to 2020/21 to opted-in bodies. The Council's share of the surplus was £6,790. No announcement relating to 2021/22 has been made at the time of issuing this report.

Non-audit services undertaken for the Council are set out in the Independence and ethics section on page 17.

- The 2021/22 fee and prior years is broken down as follows:

	Actual Fee 2020/21	Proposed fee 2021/22
Scale fee published by PSAA	£39,362	£41,762
Other previously agreed fee variations	£23,000	£21,100
Total audit fees (excluding VAT)	**£62,362**	**£62,862**

C. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unqualified audit report or amend as appropriate.

Independent auditor's report to the members of Elmbridge Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Elmbridge Borough Council (the ‘Authority’) for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer’s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority’s disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the ‘Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements’ section of this report.

C. Audit opinion

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Standards Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

C. Audit opinion

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

- We enquired of senior officers and the Audit and Standards Committee, concerning the Authority’s policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Authority’s financial statements to material misstatement, including how fraud might occur, by evaluating officers’ incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, fraudulent revenue recognition and fraudulent expenditure recognition.

- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;

- journal entry testing, with a focus on unusual journals made during the year and the accounts production stage for appropriateness and corroboration;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations; and

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

- Our assessment of the appropriateness of the collective competence and capabilities of the Authority’s engagement team included consideration of the engagement team's:

C. Audit opinion

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

C. Audit opinion

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Elmbridge Borough Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Paul Cuttle, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

24 March 2023

D. Management Letter of Representation

Dear Sirs

Elmbridge Borough Council
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Elmbridge Borough Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

D. Management Letter of Representation

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

xv. We confirm that no impairment is required on investments and that all corresponding interest have been received on the due date.

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

D. Management Letter of Representation

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit and Standards Committee at its meeting on [ENTER DATE].

Yours faithfully

Name…………………………….

Position…………………………..

Date…………………………….

Name…………………………….

Position…………………………..

Date…………………………….

Signed on behalf of the Council

E. Audit letter in respect of delayed VFM work

Dear Chair of Audit and Standards Committee,

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than three months after our opinion date.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Paul Cuttle

Director

Grant Thornton

grantthornton.co.uk