1. INTRODUCTION

1.1. This report explains the reasons for deferral of completion of the audit of the Council's 2019/20 Statement of Accounts.

2. BACKGROUND

2.1. When we reported to the Committee in September we expected to be complete the vast majority of our work by the end of September 2020, although would need then to undertake our full quality review procedures.

2.2. To allow sufficient lead times for reporting to the Audit, Governance and Standards Committee, the revised reporting date of 16 November was agreed.

3. WHAT IS THE CURRENT ISSUE?

3.1. Valuations audit work is not yet complete because our work has identified and as yet unexplained potentially material issue relating to assets that were not subject to formal revaluation by the Council's valuer in 2019/20.

3.2. The Council values all assets on a 5 years cycle. Between full valuations, the Council applies indexation to assets not subject to a full valuation in the year. This aims to ensure that valuations attributed to assets not fully revalued in the year are not materially different from the value that would have been attributed to them had they been formally valued.

3.3. This year, for a specific class of specialised asset that are valued on a Depreciated Replacement Cost (DRC) basis, the average percentage change in value calculated based on the results of those assets that were valued in the year is significantly different to the indexation that has been applied to those assets that were not valued in the year.

3.4. We do not yet have an explanation for this variance. Two possibilities are that some assets have been under-indexed or that somehow the assets that were subject to valuation in the year were unrepresentative, and so are justifiably different from the "average" position.

3.5. More work needs to be undertaken to resolve the issue and to determine whether an adjustment might be agreed and, if so, whether this is material (i.e. definitely requiring amendment) or not.

4. WHY IS THIS STILL UNRESOLVED?

4.1. There are a number of factors that have meant that this work has taken longer than expected and so delaying the identification of the issue. The key elements are:

- Last year for the area in question there was a total of 40 items outside of expectation, of which 27 were tested. For 2019/20, 109 items outside of expectations, of which 78 were tested. This means that nearly three times as many valuations needed to be subject to extended audit testing.
- Given the significant increase in samples and work needed to explain variances, we sought ways to refine expectations. We agreed to pursue local indicators via a request for information on 27 August. We did not receive the correct local index information from the valuer until mid October. Samples were therefore not able to be finalised until 16 October.
- The valuer has needed to focus on 2020/21 valuations work during the summer months, and also needed to take annual leave for a week, so were unable to respond to every 2019/20 query promptly. We also understand that ECC recognise and highlight that far more queries were raised this year. We wish to be clear that the valuers have been helpful and responsive where possible.

- Other valuations work (on Fair Valued [FV] and Existing Use Valued [EUV] assets) were also subject to delays, with samples originally requested on 3 September only responded to on 7 October, again impacted by valuer focus. Responses received clashed with progress on DRC issues.

4.2. Only once we had been able to complete our work on both the formally revalued DRC assets and also the indexation bases for those assets not formally revalued were we able to undertake a valid reasonableness comparison between the two separate movements. Specific and accelerated quality review processes have already been applied for this area to challenge the initial findings.

4.3. The residual issue, which is material, was highlighted to the Finance team in late October, upon which we worked with officers to attempt to resolve the issues. Ultimately we only concluded that we could not eliminate the issue at the end of October, which was formally notified to ECC on 2 November.

4.4. Work on the FV and EUV assets is virtually complete, with no issues identified to date.

5. NEXT STEPS

5.1. We have discussed the issue with officers and shared our relevant working papers. Work will need to be done alongside the valuer to explore the possible causes for the anomaly and then determine an appropriate solution.

5.2. This area of the audit is a significant audit risk area, and always a focus area of the Financial Reporting Council's Audit Quality Review (AQR) team, as evidenced in their recently released summary review report: https://www.frc.org.uk/getattachment/da3446de-8d37-4970-828d-e816d7c0826c/FRC-LA-Public-Report-30-10-20.pdf

5.3. We cannot and will not compromise on the quality of our audits and so this anomaly must be thoroughly investigated and resolved, including effecting adjustments to the Statement of Accounts if necessary, before we can proceed to issuing our opinion.

David Eagles, Partner
For and on behalf of **BDO LLP** 9 November 2020