



## **Thurrock Council**

Audit results report for the year ended 31 March  
2013

Issued 6 September 2013

Ernst & Young LLP

 **ERNST & YOUNG**

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**Private and confidential**

Standards and Audit Committee  
Thurrock Council  
New Road  
Grays  
Essex  
RM17 6SL

6 September 2013

Dear Standards and Audit Committee Member

**Audit results report**

We are pleased to attach our audit results report for the forthcoming meeting of the Standards and Audit Committee. This report summarises our preliminary audit conclusion in relation to Thurrock Council's (the Authority's) financial position and results of operations for 2012-13. We will issue our final conclusion after the Standards and Audit Committee scheduled for 19 September 2013.

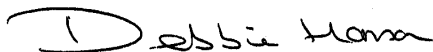
The audit is designed to express an opinion on the 2012-13 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Standards and Audit Committee and the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Standards and Audit Committee meeting scheduled on 19 September 2013.

Yours faithfully



Debbie Hanson  
For and on behalf of Ernst & Young LLP  
Ernst & Young LLP  
United Kingdom  
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

## Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Authority's financial statements. Our main findings and conclusions in relation to the areas of risk/areas of audit emphasis included in our Audit Plan are set out below.

We would particularly like to highlight the significant improvements in the quality of the accounts and working papers that the Council has submitted for audit for 2012-13. This has resulted in a much reduced number of amendments to the accounts, as reflected in this report. Some further improvement is still required, but there has been a real step change in arrangements for 2012-13 compared to previous years.

## Significant risks: findings and conclusions

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### General ledger upgrade

- ▶ We tested opening balances and concluded they were brought forward correctly.
- ▶ We reviewed the coding structure and confirmed it is in line with the Service Reporting Code of Practice.

### Grant revenue recognition

- ▶ We have tested both capital and revenue grants substantively to ensure they are correctly recognised. We have identified errors in the way funding for some items of revenue expenditure funded from capital under statute have been accounted for.
- ▶ Our testing of grants is still ongoing and we will update Members of the outcome of this work verbally at the Committee meeting.

### Double counting of schools income and expenditure

- ▶ Our work in this area is still in progress, but as a result of our questions officers have identified that some schools income and expenditure has codes have been netted off in 2012/13 instead of being reported gross. This figure will be material but both income and expenditure will increase by the same amount.
- ▶ We will update Members of the outcome of this work verbally at the meeting.

### Asset valuations

- ▶ We have tested asset valuations substantively to ensure they are correctly accounted for.
  - ▶ We have found some errors within the classification of asset valuations in note 33 and some errors in charging services with impairments of former Development Corporation assets.
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## Other financial statement risks: findings and conclusions

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### Change of payroll system

- ▶ We have obtained the assurance we require that payroll figures reported in the accounts are not materially misstated by undertaking a predictive analytical review and substantively testing a sample of payments made.

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### Quality of accounts and working papers:

- ▶ The accounts and working papers provided for the audit were considerably improved on previous years. As a result, fewer audit queries have been raised and issues that have arisen have been resolved more quickly.
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## Summary of audit differences

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below. Further detail on these misstatements is included in Section 8 of this report.

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**Uncorrected misstatements:** There are a small number of misstatements that management have not corrected. The impact of these, if corrected, would be to decrease useable reserves by £0.467m.

**Corrected misstatements:** Management have currently corrected misstatements amounting to £24m, all of which are reclassifications with no impact on reserves. Further material adjustments will be required when the Council has resolved the issue of netted off education income and expenditure. The adjustments made to date have not impacted on useable reserves. Further detail on the corrected misstatements is included in Section 8

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## Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

## Whole of Government accounts

We have not yet started the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. We will update the Committee verbally on any progress on this area between the date of issue of this report and the meeting on 19 September.

## Control themes and observations

Our audit identified the following control issues that we are bringing to your attention.

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### Current year observations

- ▶ The reconciliation between the Controc adult social care system and the general ledger was completed to February 2013 but the year end reconciliation is still not available at 6 September. This reconciliation should be completed on a regular basis throughout the year.

### Challenges for the coming year

- ▶ Ensure improvements in the quality of the financial statements and working papers and maintained.
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## 2. Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan. At 6 September the following areas are still incomplete and the Director has still to complete her final review of the accounts:

- Whole of government accounts
- Review of segmental reporting note 30, as the Council have recently reworked this note
- Review of the year end reconciliation between the Adult Social Care Controc system and the general ledger for the whole year (although we have reviewed the reconciliation completed to February 2013)
- Clearing queries on a few areas of testing, including education income and expenditure and analytical review.

We will update members of the Standards and Audit Committee on progress on these areas at the meeting on 19 September.



### 3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk/areas of audit emphasis outlined in our Audit Plan.

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#### Significant risk: General ledger upgrade

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##### Description and conclusion

The general ledger was upgraded on 1 April 2012 with a new reporting package and also a new chart of accounts. Audit work subsequently confirmed that the only significant changes to the chart of accounts related to the balance sheet and Movement in Reserves Statement (MiRS).

We tested opening balances and concluded they were brought forward correctly into 2012/13. We reviewed Internal Audit's work on controls in the general ledger, and have undertaken additional substantive procedures to obtain our assurance over the system. In particular, we have undertaken testing of journals. We reviewed the coding structure and confirmed it is in line with the Service Reporting Code of Practice issued by CIPFA and which the Council is required to follow.

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#### Significant risk: Grant revenue recognition

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##### Description and conclusion

The Council receives significant grant funding. The recognition of this revenue may be dependent on conditions being met and there is therefore a risk that grant income may be incorrectly reflected in the accounts.

We have tested both capital and revenue grants substantively to ensure they are correctly recognised.

We identified that £2.769m of funding 'revenue expenditure funded from capital under statute' (REFCUS) has been incorrectly included in the taxation section of the Comprehensive Income and Expenditure Statement (CIES) rather than within the net cost of services.

We still need to complete some of our testing of grant recognition and will update the Standards and Audit Committee verbally at the meeting on 19 September on any further issues identified subsequent to the issue of this report.

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#### Significant risk: Double counting of schools income and expenditure

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##### Description and conclusion

In previous years, material errors have arisen in the financial statements due to double counting of schools income and expenditure.

As a result of audit queries over the level of income and expenditure recorded in the CIES, the Council has reviewed these entries and identified that some codes have been netted off against each other in error. Adjustments will be made to the CIES within the cost of services section in education and children's services to include these gross. As a result of this omission, both income and expenditure are understated by the same amount. There is therefore no impact on reserves. However, the size of the amendment required has still to be determined.

Our work in this area is still ongoing and we will update the Standards and Audit Committee verbally at the meeting on 19 September on any further issues identified subsequent to the issue of this report. We will also issue an updated summary of audit differences as set out in section 8 of this report.

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#### Significant risk: Asset valuations

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##### Description and conclusion

Material errors have occurred in previous years on asset valuations. The Council has undertaken a full asset revaluation exercise during 2012/13. The Council has also reviewed the classification and valuation of the assets that transferred from the former Thurrock Thames Gateway Development Corporation (TTGDC) on 31 March 2012.

We have tested asset valuations substantively to ensure they are correctly accounted for. We have found some errors within the classification of assets in note 33 in relation to former TTGDC assets. These were reclassified incorrectly as commercial property (from other land and buildings) when they should have been classified as surplus assets. We also identified some errors in the recharges to services for asset impairments for former TTGDC assets, with sums charged to Corporate and Democratic Core within the

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CIES rather than Cultural, Environment, Regulatory and Planning Services.

Our work on asset valuations is not fully complete and we will update Members verbally of any further issues at the Standards and Audit Committee meeting.

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#### **Other financial statement risk: Payroll system change**

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##### **Description and conclusion**

The Council has migrated the payroll from the Delphi system to Oracle during 2012/13 and made the first live payment from Oracle in January 2013, with all staff successfully paid.

We undertook an analytical review to predict the level of pay costs for 2012/13 based on 2011/12 outturn adjusted for changes in staffing, pay rates and increments and confirmed the total paid was within the expected range. We also substantively tested a sample of payments made and confirmed they were correct and valid.

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#### **Other financial statement risk: Quality of accounts and working papers**

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##### **Description and conclusion**

The Council has a history of producing poor quality accounts and supporting working papers.

The accounts and working papers provided for the 2012/13 audit were considerably improved on previous years. As a result, fewer audit queries were raised and the issues that have arisen have been resolved more rapidly. The Council and the entire Finance Team is to be commended for the improvements achieved.

Although processes were significantly improved, we did identify a number of errors within the accounts, although only one impacted on the level of reserves:

- ▶ Some classification errors were identified in the adjustments in the Movement in Reserves Statement and Note 7(the adjustment between accounting basis and funding basis under regulations) which required figures to move from one line to another.
  - ▶ A payroll account code was incorrectly shown as a negative debtor when it should have been a creditor. As a result both short term debtors and short term creditors on the balance sheet were understated.
  - ▶ When the waste contract was retendered by the Council in 2009/10 the Council decided to write off the set up costs associated with the contract of £0.870m over the life of the contract from 2010/11. The balance not yet written off at 31 March is £0.467m which is included within long term debtors on the balance sheet. We disagree with this treatment and consider these costs should have been charged in the year in which they were incurred. The impact of this change, if effected, would be to reduce the level of usable reserves by £0.467m.
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## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that Thurrock Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The table below presents the findings of our work in response to the risk areas or areas of focus presented to you in our Audit Plan.

Significant risks:	Impacts arrangements for securing:	Key findings:
<b>Housing repairs contract</b>		
The Council has recently terminated its housing repairs contract with Morrisons, and let an interim contract with Mears while a full retender process takes place.	Economy, efficiency and effectiveness	<ul style="list-style-type: none"> <li>▶ The Council successfully negotiated an exit from the Morrisons contract with no financial penalty.</li> <li>▶ The interim contract let with Mears is based on average repairs costs per property. This means that there is an element of risk sharing of excess costs with the contractor</li> <li>▶ A full tendering exercise is currently in hand to comply with EU regulations and incorporating the lessons learnt from the Morrisons contract.</li> </ul>
<b>Other risks/areas of focus:</b>		
<b>Development Corporation</b>		
The Council resumed responsibility for regeneration and planning from the Thurrock Thames Gateway Development Corporation on 1/4/2012. This included transfer of a number of assets which the Council has now included within its asset management arrangements.	Economy, efficiency and effectiveness	<ul style="list-style-type: none"> <li>▶ The Council has reviewed all of the transferred assets and decided whether they are to be used to provide services or are surplus to requirements and they have been reclassified within the financial statements accordingly.</li> </ul>
<b>Changes to arrangements for council tax support and business rates</b>		
From April 2013, there will be changes to the arrangements for both local council tax support and business rates. These changes represent a significant	Financial resilience	<ul style="list-style-type: none"> <li>▶ The Council has built these changes into its financial planning projections and budget setting arrangements</li> <li>▶ A two year budget setting</li> </ul>

change for the Council and bring both financial and reputational risks and need to be reflected in the 2013/14 budget.

process has been undertaken to project detailed financial planning forward.

- ▶ Appropriate realistic assumptions have been made by the Council in financial planning.

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**Debt portfolio**

The Council continues to maintain a high proportion of its debt in short term arrangements to take advantage of current low interest rates. The Council needs to continue to monitor this position to ensure that debt is moved to longer term at the appropriate time.

Financial resilience

- ▶ The Council continues to monitor the position on interest rates and obtain advice from relevant advisors to ensure a move to longer term fixed rates is made at the appropriate time.

## 5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

### 5.1 Current year observations

Description	Impact
The reconciliation between the Controc adult social care system and the general ledger was completed to February 2013 but the year end reconciliation is still not available at 6 September. This reconciliation should be completed on a regular basis throughout the year.	Potential for error within adult social care costs reported within the net cost of services part of the CIES.

### 5.2 Challenges for the coming year

Description	Impact
The Council has made significant improvements in the processes for the production of its accounts in 2012-13, although there remains room for further improvement in some areas.	The Council needs to ensure that it maintains and continues to build on the improvements in the quality of the financial statements and working papers that have been achieved in 2012-13.

## 6. Status of our work

### 6.1 Financial statement audit

Our audit work in respect of our opinion on the Authority's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report (6 September).

Item	Actions to resolve	Responsibility
Segmental reporting Note 30	Council to finish reworking the note and Ernst & Young to review and test	Management and Ernst & Young
Assurance from the auditor of Essex County Council pension fund on the pension figures	Assurance to be received and reviewed by Ernst & Young	Ernst & Young
Year end reconciliation between the Adult Social Care Controc system and the general ledger to be completed	Council to complete the reconciliation and Ernst & Young to review and test	Management and Ernst & Young
Clearance of some queries on a remaining areas of testing, including grants, HRA, collection fund, fixed assets, education income and expenditure and analytical review	Council to provide outstanding information and Ernst & Young to review and test it.	Management and Ernst & Young
Letter of representation	To be tabled at Standards and Audit Committee on 19 September 2013.	Management and Standards and Audit Committee
Revised accounts to be produced	<ul style="list-style-type: none"> <li>▶ Incorporation of Ernst &amp; Young review comments on disclosure notes</li> <li>▶ Finalisation by management of disclosures related to segmental reporting</li> <li>▶ Approval of accounts by Standards and Audit Committee</li> <li>▶ Accounts re-certified by RFO</li> </ul>	Management, Standards and Audit Committee and Ernst & Young

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Authority's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

### 6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Authority's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

### 6.3 Objections

We have received no objections to the 2012/13 accounts from members of the public.

## 7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £'000	Planned fee 2012/13 £'000	Scale fee 2012/13 £'000	Explanation of variance
<b>Total Audit Fee – Code work</b>	177,227	177,227	177,227	<b>n/a</b>
Certification of claims and returns	35,305*	28,950	28,950	Additional fee of £6,355 for responding to DWP queries on the 2011/12 qualification letter on the Housing Benefits claim
<b>Non-audit work</b> – provision of a bespoke accounts workshop for finance staff at the request of the Council	8,000	0	n/a	Additional workshop provided at request of Council.

*\*Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13.*

## 8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

We have included all amounts greater than £2.180 million relating to Thurrock Council in our summary of misstatements below.

We highlight in particular the following misstatements identified during the course of our audit that have been corrected by management.

- ▶ £10.635m of impairment charges relating to assets transferred from TTGDC were incorrectly charged to Corporate and Democratic Core within the net cost of services part of the CIES instead of to Cultural, Environmental, Regulatory and Planning Services. There was no impact on total net cost of services as a result of this error.
- ▶ £4.965m of former TTGDC assets were incorrectly reclassified from other land and buildings to commercial property but they should have been reclassified as surplus assets. This error has no impact on the balance sheet and only changes Note 33.
- ▶ £3.159m relating to East Tilbury school. This school became a foundation school on 1 April 2011, but this change in status was not reflected in the 2011/12 accounts. In 2012/13 the Council revalued the asset as part of the overall asset valuation programme and then derecognised it later in the year. However, the upward revaluation should not have been recognised, so the revaluation gain is overstated in the CIES and the derecognition is also overstated in note 33. This error also affects the MiRS and notes 7, 10 and 25 (the Capital Adjustment Account and the Revaluation Reserve). This has no overall impact on the Council's financial position.
- ▶ £2.769m of funding for revenue expenditure funded from capital under statute (REFCUS) was included within the taxation part of the CIES. However, this is current year funding so should have been included within the net cost of services part of CIES. Of this total, £0.326m relates to Cultural, Environmental, Regulatory and Planning Services, £1.933m relates to Education and Children's Services and £0.510m relates to Other Housing Services. This is a reclassification error and does not impact on the Council's financial position.
- ▶ £2.630m payroll balance was incorrectly shown as a negative debtor when it should have been a creditor. As a result, both debtors and creditors have been increased by this amount.
- ▶ Further material amendments are expected to be required in relation to schools income and expenditure within the Education and Children's Services line in the CIES due to the incorrect netting off against each other of some codes. Reporting them gross will increase both income and expenditure by the same amount. We will update the Standards and Audit Committee on the sums involved at the meeting on 19 September, when our work in this area is completed. We will also update the Committee on any other amendments over £2.180m identified as a result of our other work that is still in progress.
- ▶ A number of material amendments have also been made within disclosure notes as a result of the audit, demonstrating a need for further improvements in this area. Some of the main changes include:



- ▶ Changes to grants figures within note 7 (adjustments between financing and statutory basis) relating in particular to capital grants and contributions unapplied credited to the CIES.
- ▶ Changes to note 34 (capital financing requirement) to correct the disclosures relating to the asset revaluations on other land and buildings.
- ▶ Changes to note 39 (financial instruments) relating to debtors and creditors to ensure the balances reflected in the note meet the definition of financial instruments and that the note also includes all items meeting the definition.

We also highlight the following misstatements which were not corrected by management:

Uncorrected misstatements	Assets current	Assets non- current	Liabilities current	Liabilities non- current	Income	Expenses
	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period	Debit/ (Credit) Current period
<b>Known differences:</b>						
▶ Incorrect treatment of waste collection contract set up costs. Council set these costs up as long term debtor in 2009/10 and are writing them down over 5 year life of contract.		(467)				467
<b>Judgemental differences:</b>						
▶ None						
<b>Balance sheet totals</b>	<b>0</b>	<b>(467)</b>	<b>0</b>	<b>0</b>		
<b>Income effect of uncorrected misstatements</b>					<b>0</b>	<b>467</b>
<b>Cumulative effect of uncorrected misstatements before turnaround effect</b>	<b>0</b>	<b>(467)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>467</b>

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2013.

## 9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated February 2013. We complied with the Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Standards and Audit Committee on 19 September 2013.

## Appendix A Required communications with the Audit Committee

There are certain communications that we must provide to the audit committee. These are detailed here:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit results report
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit results report
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	This was discussed and a paper presented by management to the Standards and Audit Committee on 18 April 2013
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	No issues identified to report
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	No issues identified to report

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	This was discussed and a paper presented by management to the Standards and Audit Committee on 18 April 2013
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on Ernst &amp; Young's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and update in section 8 of this report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No issues identified to report
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	Audit results report
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Not applicable to Thurrock Council audit
<p><b>Opening Balances</b></p> <ul style="list-style-type: none"> <li>▶ Findings and issues regarding the opening balance of initial audits</li> </ul>	Audit results report
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	Audit Plan and Audit results report
<p><b>Summary of certification work undertaken</b></p> <ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	Annual Certification Report – to be issued January 2014.

## Appendix B Letter of representation

[To be prepared on the entity's letterhead]

*[Date]*

Ernst & Young  
400 Capability Green  
Luton  
Bedfordshire  
LU1 3LU

This representation letter is provided in connection with your audit of the financial statements of Thurrock Council ("the Council") for the year ended 31 March 2013. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Thurrock Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement] – see section 8 above

## **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

## **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Overview and Scrutiny committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.
4. The housing repairs contract termination claim by Morrisons has been settled for the total sum of XXX which has been properly accrued in the financial statements. No other claims in connection with litigation have been or are expected to be received.

#### **F. Subsequent Events**

1. Other than ongoing discussions with the Strategic Services Partner on bringing the Highways and Engineering and Property Services back in house described in Note 28 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.



- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

#### **I Use of the Work of an Expert**

1. We agree with the findings of the experts engaged to revalue long term assets and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

*Yours Faithfully,*

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Responsible Financial Officer

I confirm that this letter has been discussed and agreed at the Standards and Audit Committee on 19 September 2013

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Chairman of Standards and Audit Committee

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