

<b>18 July 2019</b>		<b>ITEM: 8</b>
<b>Standards &amp; Audit Committee</b>		
<b>Audit Results Report for the Year Ended 31 March 2019</b>		
<b>Wards and communities affected:</b> All		<b>Key Decision:</b> Key
<b>Report of:</b> Sean Clark, Director of Finance and IT		
<b>Accountable Assistant Director:</b> Jonathan Wilson, Assistant Director—Finance		
<b>Accountable Director:</b> Lyn Carpenter, Chief Executive		
<b>This report is</b> Public		

## Executive Summary

This report details the findings of the external auditors from their audit of the 2018/19 financial statements to date.

External audit work is ongoing and there are no identified material issues to date. Work on the value for money conclusion is also ongoing. External audit will table their detailed report at the meeting and update Members on their proposed opinions for the audit of the financial statements and on the value for money conclusion.

### 1. Recommendation(s)

- 1.1 That the Standards and Audit Committee consider the comments of the external auditors as set out in the attached report and note their findings.**

### 2. Introduction and Background

- 2.1** The external audit process has progressed substantially but there remains work outstanding. The financial statements further developed in 2018/19 to include the updated requirements of the CIPFA Code of Practice on Local Authority Accounting (The Code) and incorporate the group financial statements which include the financial results of both Thurrock Regeneration Ltd and Thurrock Homes Ltd.
- 2.2** This report sets out the External Auditor's findings to date and officers are pleased to note progress has been smooth and it is expected the audit will conclude in line with statutory deadlines.

There are no identified material issues to date. There has been an update to the valuation of the Local Government pension scheme which is set out below. There are also likely to be some classification updates required to the notes to the accounts. Any further changes will be shared at the meeting.

### **3. Issues, Options and Analysis of Options**

- 3.1 The External Audit Report included in Appendix 1 sets out the detailed findings. There have been no issues identified to date which impact on the General Fund reserve balance of £11m.
- 3.2 The detailed audit report will be presented by BDO.
- 3.3 There is likely to be one unadjusted item which is significant but not material (although the final figure is to be confirmed) to the Council's financial statements. This relates to an updated valuation of the liabilities in the Essex Pension Fund (EPF). This change was notified by EPF following an update to the original valuation notified to the Council. In the IAS19 report previously issued for the Employer as at 31 March 2019 no allowance was made for the recent McCloud judgement, which relates to age discrimination within the new Judicial Pension Scheme.
- 3.4 This was due to the uncertainty of how this judgement may affect Local Government Pension Scheme members' past or future service benefits. The initial decision was subject to an appeal by central government. In June 2019 the appeal was denied and hence it is now clear there will be an impact. Guidance issued now requires local authorities to consider the materiality of the impact and consider this on a range of options including a 'worst case' basis. The initial estimated impact on liabilities is £4.718m and on the current service cost is £0.535m. The Council is currently intending to disclose this in the financial statements but not amend as the amount is not material and this remains an estimate. This may be reassessed once a final figure has been received from EPF.
- 3.5 The audit remains in progress and further items will be considered as appropriate.
- 3.6 The audit has progressed smoothly to date and the finance team has worked effectively with external audit to enable completion of the work within agreed timescales and the Council has met the earlier closedown deadlines again for 2018/19.
- 3.7 The increase in usable reserves generated through the Council's commercial strategy continues to support the work of Members and Officers to ensure the Council remains financially sustainable in the medium term. This has been discussed as part of the ongoing work on the value for money conclusion.

#### **4. Reasons for Recommendation**

- 4.1 For the committee to note the findings of the external auditors and have mind to these findings when considering the Annual Governance Statement and Financial Statements later on this agenda.

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

- 5.1 All services and senior management have been consulted in the compilation of this document.

#### **6. Impact on corporate policies, priorities, performance and community impact**

- 6.1 The level of resources and how they are allocated will affect the amounts available towards the Council's overall aims and objectives.

#### **7. Implications**

##### **7.1 Financial**

Implications verified by: **Sean Clark**  
**Director of Finance and IT**

The statements are largely governed by the Code. Apart from reporting the Council's financial position as at 31 March 2019, there are no further financial implications arising directly from this report.

##### **7.2 Legal**

Implications verified by: **David Lawson**  
**Assistant Director of Law and Governance**

There are no specific implications from this report.

##### **7.3 Diversity and Equality**

Implications verified by: **Natalie Warren**  
**Community Development & Equalities Manager**

There are no specific implications from this report.

##### **7.4 Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

There are no specific implications from this report.

**8. Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- There are various working papers within Corporate Finance.

**9. Appendices to the report**

- Appendix 1 - Audit Results Report – to be tabled at committee

**Report Author:**

Sean Clark

Director of Finance and IT

Report to the Standards and Audit Committee

# THURROCK COUNCIL

Audit Completion Report: Year ended 31 March 2019

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# WELCOME

## Introduction

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We have pleasure in presenting our Audit Completion Report to the Standards and Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Standards and Audit Committee. At the completion stage of the audit it is essential that we engage with the Standards and Audit Committee on the results of our audit of the Group and the Council financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Standards and Audit Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Standards and Audit Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

[insert signature]

Lisa Clampin  
16 July 2019

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the Group and the Council financial statements and use of resources. This report has been prepared solely for the use of the Standards and Audit Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.



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# OVERVIEW

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This summary provides an overview of the audit matters that we believe are important to the Standards and Audit Committee in reviewing the results of the audit of the financial statements and use of resources of the Group for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

This report is currently in draft until we have completed our audit work, at which time a final version will be issued.



### Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinions in line with the agreed timetable.

Outstanding matters are listed on page 49 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

### Audit report

We anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's financial statements and use of resources pending the resolution of the outstanding matters.



# THE NUMBERS

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### Final materiality

Group final materiality was determined based on gross expenditure.

We increased our materiality from £6m to £6.3m on receipt of the draft accounts, to reflect actual gross expenditure.

### Material misstatements

At the time of drafting this report we have identified one material misstatement. There was a classification change required in the group accounts to apply the consolidation adjustment for borrowing and long term creditors between the Council and Thurrock Regeneration Ltd (TRL), amounting to £31 million, correctly. The adjustment had been applied to long term borrowing but should have been applied to long term creditors to align with the TRL statements. This was updated in the draft financial statements and has no impact on either the total value of the group balance sheet or on the value of the group reserves.

### Unadjusted audit differences

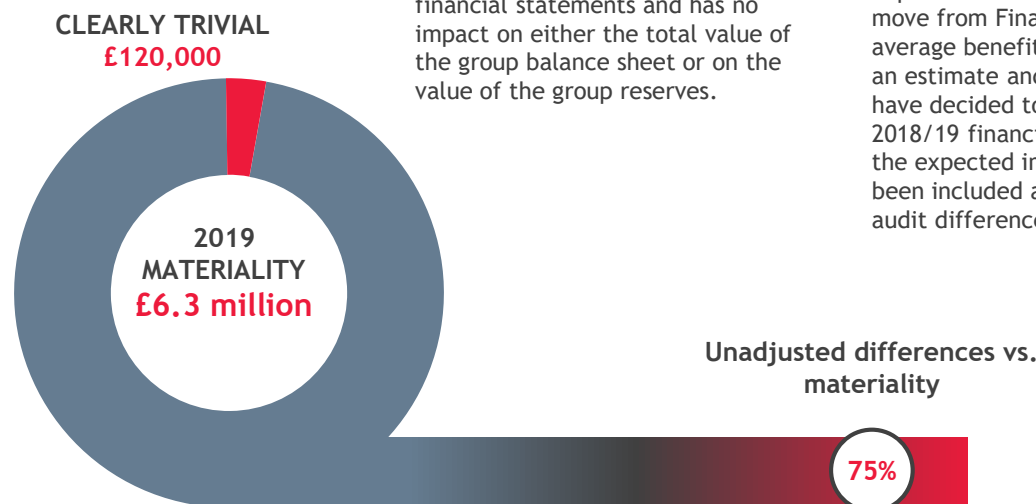
To date we have identified one unadjusted audit difference of £4.718m.

As a result of the judgement on the 'McCloud' age discrimination case the Council's pension liability is expected to increase. During the audit period the Government was refused leave to appeal the judgement, further supporting this expectation. The actuarial estimate is currently an increase to liabilities of £4.718m, as a result of the principals of this case being expected to also apply to the LGPS move from Final Salary to career average benefits, but this remains an estimate and so management have decided to not amend the 2018/19 financial statements with the expected impact. Hence this has been included as an unadjusted audit difference.

### Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).

We have audited the Council's financial statements under the NAO Code of Audit Practice. We have undertaken analytical review procedures for the two subsidiaries.



# OTHER MATTERS

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### Financial reporting

- From the work completed to date we have not identified any non-compliance with group accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year. IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers* has not had a material impact.
- Going concern disclosures are deemed sufficient.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's deadline of 13 September 2019.

### Other matters that require discussion or confirmation

- Control deficiencies identified in relation to PPE and journals.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.



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# AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 15 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We have subsequently included a further risk relating to the classification of financial instruments. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue (and expenditure) recognition	Significant	No	No	No	No	No
Valuation of property, plant and equipment	Significant	Yes	Yes	No	No	Yes
Pension liability valuation	Significant	Yes	Yes	Yes, unadjusted	No	Yes
Classification and measurement of financial instruments (IFRS 9)	Normal	No	No	Yes, adjusted	No	No
Revenue from contract with customers (IFRS 15)	Normal	No	No	No	No	No

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# AUDIT RISKS OVERVIEW

## Continued

As identified in our Audit Plan dated 15 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We have subsequently included a further risk relating to the classification of financial instruments. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Allowance for non-collection of receivables	Normal	No	No	No	No	No
Adequacy of disclosures	Normal	No	No	Yes, adjusted	No	No

Areas requiring your attention

# MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.	
Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
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Letter of Representation point	

**Risk description**

ISA (UK) 240 - The auditor’s responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

**Work performed**

We carried out the following planned audit procedures:

- A review and verification of journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics e.g. postings at weekends or round sum values to filter the population of journals. We will use our IT team to assist with the journal extraction;
- A review of estimates and judgements applied by Management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

**Results**

Our detailed testing of a sample of journals is substantially complete and work to date has not identified any significant issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

# REVENUE (AND EXPENDITURE) RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

## Risk description

We consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

## Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria were met; and
- Tested an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

## Results

Our sample testing of revenue and capital grants confirmed that these were appropriately recognised when performance conditions attached to them had been satisfied.

Our audit work to confirm expenditure has been recorded in the correct period is on-going and we will update the Committee on the results in our final completion report.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
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# VALUATION OF PROPERTY, PLANT & EQUIPMENT RECOGNITION

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There is a risk over the valuation of land, buildings and dwellings where valuations are based on significant assumptions.	
Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

**Risk description**

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value or fair value (as applicable) at the balance sheet date.

PPE values are subject to valuation changes and material judgemental inputs and estimation techniques. The Code requires management to conduct a full valuation of its land and building on a periodic basis (at least every five years). In the intervening years management is required to assess whether there has been a material change in the value of its assets that should be accounted for.

Due to the significant value of the Council’s land, buildings and dwellings and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

**Work performed**

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and reviewed the valuer’s skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes;
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appeared unusual; and
- Confirmed that assets not specifically valued in the year had been assessed to ensure their reported values remained materially correct.

# VALUATION OF PROPERTY, PLANT & EQUIPMENT RECOGNITION

## Continued

There is a risk over the valuation of land, buildings and dwellings where valuations are based on significant assumptions.

### Results

Our review of instructions to the valuer including the valuer’s skills and expertise did not identify any issues. We also confirmed the basis of valuation for assets valued in year was appropriate and in line with Code.

Our work on the accuracy and completeness of asset information used as the basis of valuation is still on going and we will update the Committee on the results in our final completion report.

Our work on the assets not specifically valued in the year to confirm they have been assessed to ensure their reported values remain materially correct is still ongoing and we will update the Committee on the results in our final completion report.

The results of our review of the assumptions and estimates used by the valuer for classes of assets is reported on the following pages.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	



# VALUATION OF PROPERTY, PLANT & EQUIPMENT RECOGNITION 2

## Significant estimate - Dwellings

### Council's dwellings at Open Market Value Social Housing (£730 million)

< lower valuation



> Higher valuation

Council dwellings are valued at open market value and adjusted to 38% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG (now MHCLG) in 2016 for regional differences between market rents and social rents.

A flat rate 3.331% increase in valuations has been applied to each property for 2018/19 (giving a total gain of £24 million). The 3.331% increase applied to the HRA stock has been calculated based on the average movement in 31 archetypal properties per land registry data for 2018-9. Where none have taken place, transactions for comparative properties have been searched on the land registry database and the most relevant price used to inform the valuation, if they are appropriate.

We have compared this to house price indices, which show a national average increase ranging from 0.4% to 1.45% over the same period, which is lower than the 3.3315% used by the Council. We have queried this with management and are awaiting management's response.

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# VALUATION OF PROPERTY, PLANT & EQUIPMENT RECOGNITION 3

## Significant estimate - Schools and leisure centres

### Council's buildings at Depreciation Replacement Costs including schools and leisure centres



Council owned schools and leisure centres are valued at depreciated replacement cost on the basis of gross internal area and estimated rebuild costs. This valuation is reduced to reflect the age and remaining useful economic life of the building.

Our work on the valuation of DRC valued assets is still ongoing. We will provide an update to the Committee.

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# VALUATION OF PROPERTY, PLANT & EQUIPMENT RECOGNITION 4

## Significant estimate - Other land and buildings

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Pension liability valuation

Pension liability valuation 2

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Allowance for non-collection of receivables

Classification & measurement of financial instruments (IFRS 9)

Revenue from contracts with customers (IFRS 15)

Adequacy of disclosures

### Council's other land and buildings at Existing use value

< lower valuation

TBC

> Higher valuation

Other land and buildings (industrial, retail and office) valued at existing use current value has been indexed by 0% for the current year. The Council has indicated that this has been mainly due to stagnating investment as a result of Brexit, the undesirability of many of the units due to either their location or condition and the fact that rentals have either not increased at all or have moved negligibly for several years.

We have looked at management's assertions on the movement on the value of other land and buildings.

#### INDUSTRIAL

Our review of four 'archetypal' vacant industrial units at the Council and the proposed rents charged on them seems to agree with the above analysis, in that there has been very little movement on the rents since 2016 or 2017, which are either just above or occasionally slightly below market rent, due to a combination of the factors above. This points to the 0% increase being reasonable. However, the external market research used and further research by BDO suggests that there has been movements in both the prime rents, secondary rents and capital values in Thurrock from Q1 2018 to Q1 2019, being an increase of 2%, 2.8% and 5.6% respectively. Further market reports also suggest an increase in the land value in West Thurrock from £1.2m per acre to £1.3m per acre, as at Autumn 2018. This is an increase of 8.3% and is something that could have a significant impact on the value of the land in the asset register, which again should be investigated further.

We are assessing management's response with regards to the above.

#### RETAIL

The market conditions for retail are much more consistent across the external research, describing a changing but stagnant market, which is particularly appropriate to Thurrock where the majority are small shops where the market rent struggles to be charged and rents have not moved for several years.

Our review of four 'archetypal' retail units and other market research suggests a stagnation in market rents and a particular struggle in Thurrock to be able to charge above the market rent. These have either shown no rental movements over the last few years of rent reviews or have only had notional, minimal rent increases to account for the passing of time since the last rent review, but nothing material. We are satisfied that the retail asset valuations are based on reasonable assumptions and not materially misstated.

#### OFFICE

There are only a few office spaces and the two archetypal properties that we viewed had no changes in the value of the rent for several years. The majority of office space is not in a prime location and a significant portion of the office portfolio is the Council's renting out of the Civic Offices and the Thameside Complex to NHS Thurrock CCG and Thurrock Lifestyle Solutions, both of which have seen no rent increases. The market research and Council's portfolio both seem to suggest no appreciable increase in rents/capital values both historically and in 2018-9 movements. We requested more information to support this position and are assessing management's response.

# VALUATION OF PROPERTY, PLANT & EQUIPMENT RECOGNITION 5

## Significant estimate - Surplus assets

### Council's surplus assets at fair value (£59 million)

< lower valuation



> Higher valuation

Surplus assets are valued at fair value (highest and best use) by reference to similar sales and potentially including an increase where the purchaser may be able to amend the consents for use and increase the value of the asset.

Our work on the valuation of surplus assets is till ongoing. We will provide an update to the Committee.

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There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
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**Risk description**

The net pension liability comprises the Council and Group’s share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

**Work performed**

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the competence of the management expert (actuary);
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls in place for providing accurate membership data to the actuary;
- Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checked that any significant changes in membership data have been communicated to the actuary.

Since we issued our audit plan, the Government has been refused leave to appeal the age discrimination case brought in relation to the new Judicial Pension Scheme (known as McCloud judgement). We have considered further information from the actuary on the impact of this judgement on the pension fund liability.

# PENSION LIABILITY VALUATION

## Continued

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

### Results

We have agreed the disclosures to the information provided by the actuary.

We have reviewed the competence of the actuary and the assumptions used by the actuary and we identified no issues. Our work on the assumptions is on the following page.

We are still waiting for the report from the pension fund auditors.

The actuary has not indicated any significant changes to the membership information for the year. Management confirmed that there are no significant changes in membership data that have not been communicated.

The Council has obtained an updated valuation of the liability to take account of the impact of the McCloud judgement ruling. This suggests that the Council's liability could increase by £4.718 million. Our work on the appropriateness of the assumptions used on the revised calculation is still ongoing.

Management has not amended this as there remains uncertainty on the specific application of the McCloud judgement to the Local Government Pension scheme and consequently the estimated financial impact. This is expected to be resolved and included fully within the pension valuations in 2019/20. In the 2018/19 financial statements Management will include a disclosure to provide clarity on the current expected impact as noted above. We have reported this as an uncorrected misstatement.

# PENSION LIABILITY VALUATION 2

## Significant estimate - Pension liabilities

### Council's pension liabilities (£154.5 million funded LGPS and £8.1 million unfunded promised retirement benefits)

< lower valuation

> Higher valuation

The Council's pension liability has increased from £597.6 million to £614 million and it's share of the scheme assets increased from £427.8 million to £459.5 million. The net deficit decreased by £15.9 million to £162.6 million. The increased liability arose from changes to demographic and financial assumptions stated below.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
<b>Financials:</b>			
- RPI increase	3.4%	3.40 - 3.45%	Reasonable
- CPI increase	2.4%	2.40 - 2.45%	Reasonable
- Salary increase	3.9%	2.40 - 3.90%	Reasonable - short term CPI to 2020 and long term: CPI plus 1.5%
- Pension increase	2.4%	2.40 - 2.50%	Reasonable
- Discount rate	2.4%	2.35 - 2.45%	Reasonable
Commutation:	50%	50%	Reasonable
<b>Mortality:</b>			
- Male current	22.9 years	22.2 - 25.0	Reasonable
- Female current	25.4 years	25.0 - 26.6	Reasonable
- Male retired	21.3 years	20.6 - 23.4	Reasonable
- Female retired	23.6 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.5% long term rate, 7.0 smoothing factor, nil addition to initial improvements)		Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

# PENSION LIABILITY VALUATION 3

## Significant estimate - McCloud and GMP equalisation

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### McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not receive this underpin of benefits, Government will have to remedy the discrimination in the LGPS.

The Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Council's liability could increase by £4.718 million. Our work on the appropriateness of the assumptions used on the revised calculation is still ongoing.

Management has not corrected the financial statements to include this additional liability and we have reported this as an uncorrected misstatement.

### GMP equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS could increase liabilities by +0.3%.

The Council's actuary has confirmed that the calculation of pension liabilities has made adjustments for GMP equalisation costs.



# ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES

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There is a risk over the valuation of the allowance for the non-collection of arrears and debt.	
Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

**Risk description**

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. The Council assesses each type of receivable separately in determining how much to allow for non-collection.

There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

**Work performed**

We reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears and, for receivables classified as financial instruments, includes appropriate assumptions for expected credit losses.

**Results**

The Council has applied the ‘simplified approach’ to calculate the expected credit loss on trade receivables that fall within the scope of IFRS 9. Government (and the Code) has stated that Government debt and public authorities are deemed not to present any risk of non-collection and should not be included in the expected credit loss model or impaired. Our work on the appropriateness of the assumptions used by the Council is still ongoing. We will update the Committee on the results in our final completion report.

# CLASSIFICATION & MEASUREMENT OF FINANCIAL INSTRUMENTS (IFRS 9)

There is a risk that financial instruments are not classified and measured in accordance with IFRS9.

## Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.

The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements. This will need to include both the Council and component entities in the Group financial statements. There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the new classification of financial instruments in accordance with the guidance on both the Council and the component bodies in the Group; and
- Reviewed the disclosures prepared relating to the adoption of the new accounting standard.

## Results

Management initially classified property fund investments held under CCLA as fair value through other comprehensive income (FVOCI) in accordance with specialist advice from treasury management advisors. Following technical review during the audit process we concluded these investments should be classified as fair value through profit and loss (FVPL). Management is happy to amend the treatment and the expected impact is £0.3m charge to the CIES which is then reversed in the MIRS and hence has no overall impact on reserves

We are still in the process of receiving all the investment confirmations from third parties to perform our review of the classification and disclosure of these financial instruments. We will give a verbal update to the Committee.

Our work is still ongoing on the review of the disclosures on adoption of the new accounting standard.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
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There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
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## Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new ‘5-step model’ to determine the appropriate point at which revenue can be recognised.

CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue.

The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements. This will need to include both the Council and component entities in the Group financial statements. There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new ‘5-step model’ on revenue streams on both the Council and the component bodies in the Group; and
- Reviewed the disclosures prepared relating to the adoption of the new accounting standard.

## Results

Our initial review of revenue streams suggests that there are unlikely to be material restatements required for the Council.

Our review is in progress and will update the Committee in final completion report.

# ADEQUACY OF DISCLOSURES

There is a risk of inaccurate and incomplete disclosures as a result of errors found in review of prior year accounts

### Risk description

Our review of the 2017/18 accounts indicated that some disclosures may not meet the requirements of the Code.

Potential errors identified include disclosures in respect of long term debtors, financial instruments, cash flow statement and related parties.

### Work performed

We carried out the following planned audit procedures:

- Engaged with management on the potential issues identified to gain an understanding of the intended disclosures for 2018/19; and
- Reviewed the presentation and disclosure in the financial statements against the Code disclosure checklist.

### Results

The draft accounts had no disclosure note for £741.22 million of long term debtors due to commercial sensitivity. This comprises primarily of investments as part of a significant investment strategy during 2018-9. This has been amended on the second version of accounts.

We are still in communication with management about the further amendments to the accounts, we will give a verbal update to the Committee.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
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# OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
The Code and IAS 7 has introduced an additional cash flow disclosure this year to reconcile the movement in financial liabilities in the balance sheet with the cash flow statement for cash movements and other non-cash movements.	The Council had not included this additional disclosure but this has been amended by management.
In previous years, the Code has required that debtors and creditors should be presented by analysis of the type of counter party, such as amounts due from Government or NHS bodies. This year, the Code has removed this requirement and refers to IAS 1 presentation of financial statements and provides an example in the template financial statements, showing an analysis (for receivables) by trade customers, receivables from related parties, prepayments and other amounts.	<p>The Council had not included the new form disclosure note on its debtors and creditors in the first draft accounts.</p> <p>This has been updated on the second draft of accounts.</p>

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

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## Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 14 March 2019.

## Laws and regulations

Our work on compliance with laws and regulations is still ongoing.

## Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

Our work on related parties is still ongoing.



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# UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



We are required to bring to your attention unadjusted differences and we request that you correct them.

At the time of drafting this report there is one unadjusted audit difference identified by our audit work (page 29), however our work is still in progress. If adjusted it would have no impact on the surplus on the provision of services.

There would be no impact on the general fund balance.

Management consider the difference to be immaterial in the context of the financial statements as a whole.



# UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

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	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Unadjusted audit differences</b>					
Surplus on the provision of services before unadjusted audit differences	(13,128)				
1: Changes in net defined benefit liability as a result of the McCloud judgement on pension funds					
DR Pension Reserve				4,718	
CR Pension liability					(4,718)
<b>Total unadjusted audit differences</b>				4,718	(4,718)
Surplus on the provision of services if above issues adjusted	(13,128)				

	General Fund balance £'000	HRA balance £'000
<b>Impact on the General Fund balance and HRA balance</b>		
Balance before unadjusted audit differences	11,000	2,175
Impact on surplus on the provision of services above	-	-
Adjustments that would be reversed from the General Fund and HRA balance through the Movement in Reserves Statement	-	-
<b>Balances after the above adjustments</b>	<b>11,000</b>	<b>2,175</b>



# UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit Committee is required to consider.

The following unadjusted disclosure matters were noted:

- Analysis of the reconciliation of financial liabilities as required by the amended IAS 7
- Classification and disclosure of financial instruments in respect of the CCLA investment which has been designated as FVOCI instead of FVPL.

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# ADJUSTED AUDIT DIFFERENCES: SUMMARY

## Summary for the current year

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There was one audit differences identified by our audit work that was adjusted by management. This did not have an impact on the draft surplus on the provision of services.

There was no impact on the general fund balance.

# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position		
	NET DR/(CR) £'000	DR £'000	(CR) £'000	NET DR/(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>						
Surplus on the provision of services before adjustments	(13,128)					
1: Reclassification of long term loan from creditors to borrowings						
DR Long Term Creditors					31,390	
CR Long Term Borrowings						(31,390)
Total adjusted audit differences				0	31,390	(31,390)
Adjusted surplus on the provision of services	(13,128)					

## ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

**We are required to bring to your attention other financial reporting matters that the Audit Committee is required to consider.**

The following adjusted disclosure matters were noted:

- The disclosure note for debtors and creditors
- Reclassification of the grants revenue from fees and charges to grants and contributions.

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# REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

# WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline.</p> <p>We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council’s financial statements.</p> <p>We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office’s 13 September 2019 deadline.</p>

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# OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	No

# SUSTAINABLE FINANCES

The Council will need to deliver its savings and achieve investment income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings	

### Risk description

The Medium Term Financial Strategy (MTFS) covering the period from 2019/20 to 2023/24 forecasts further revenue reductions in Government funding from grants and that will continue into the future. The MTFS also acknowledges pressures from inflation, increasing pay awards and other demographic and economical pressures.

The Council has set a balanced budget (surplus) for 2019/20 up to 2022/23 with a deficit budget for 2023/24. The Council's net pressures, before investments and savings, are £24m over the 5 years of the current MTFS. Delivery of the Council's commercial investment strategy is key to the achievement of the MTFS.

The Council has reported net pressures of £0.4m for 2018/19 as at the end of December 2018. The current MTFS has identified savings of £2.2m for 2019/20 to produce a balanced budget.

The financial and commercial management challenges faced by the Council are notable, in particular the dependence upon delivery of material commercial investment income in 2018/19 and 2019/20. As a result we conclude that there is a significant risk in respect of sustainable resource deployment.

### Work performed

We carried out the following planned audit procedures:

- the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Reviewed the monitoring of the delivery of the budgeted savings;
- Reviewed the investment plans and the adequacy of those plans; and
- Sampled a number of savings scheme and plans for detailed review.

# SUSTAINABLE FINANCES

The Council will need to deliver its savings and achieve investment income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings	

## Results

The Council achieved the balanced budget it has anticipated at the start of the financial year and the General Fund balance was maintained at £11 million.

The Council has improved its earmarked reserves by £13 million to £22 million in the current year. The Council has no plans on drawing from reserves in the MTFS period to cover gaps.

Our work on the delivery of savings and the adequacy of the investment plans over the MTFS period is still in progress.

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# SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Standards and Audit Committee.

As the purpose of the audit is for us to express an opinion on the Group and the Council’s financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Journals	Our audit has identified that journals are not being reviewed by another person other than the one raising it.	The Council should update their journal approval procedures to include a threshold for which journals should go through to a second approver.	The current process has been in place for a number of years. The corporate finance team are the only staff authorised to raise journals in the system. Effectively their role is an oversight/control on the proposed journals from budget holders in the service. Journal requests are initiated from the service and corporate finance then ensure these requests are appropriate, accurate and supported by relevant evidence. There is then the wider oversight arising from the levels of budget management review in place which identifies unexpected balance movements on a monthly basis. The external audit analytics process means all journals are reviewed and subject to audit testing annually. There have been no specific issues raised. Notwithstanding this management will review the process in 2019/20



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Area	Observation & implication	Recommendation	Management response
HRA	<p>The preparation of the HRA notes in the financial statements, which include a disclosure of the number and type of properties in the council's housing stock, is based on the council's fixed asset register. This means that the fixed asset register is kept up to date with disposals, additions and other changes to the housing stock.</p> <p>However, during the audit we requested a reconciliation of the number/type of properties held in the asset register to the system used to administer the council housing stock, Northgate. This proved difficult and there were numerous differences between the data in the fixed asset register/financial statements and the data on the Northgate system.</p> <p>This means that there are data integrity issues which could have an impact on the way that the council accounts for its properties based on incorrect information between the two systems. It also means that decisions that council makes regarding its housing stock could be impacted by inaccurate and/or inconsistent data between the financial statements and the day-to-day records held on Northgate.</p>	<p>We recommend that the council conducts the following:</p> <p>A full one-off review to reconcile the fixed asset register and Northgate, ensuring to correct any differences and maintaining an accurate record in both systems; and</p> <p>A quarterly reconciliation of the properties held in both systems based on the records held by finance and the records held by the housing team;</p> <p>The second recommendation could be superseded by the introduction of a process whereby any changes to the housing stock on Northgate/the fixed asset register must be signed off by both finance and the housing team, ensuring that records are simultaneously updated in the fixed asset register/financial statements and Northgate.</p>	<p>The reconciliation process is in progress as recommended and management will review the results once available.</p>

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# OVERVIEW

## Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements on resolution of the queries and completion of our audit work.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

## Conclusion on use of resources

Our work is still in progress although nothing has come to light from work completed to date that would have an adverse impact on our conclusion.

## Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

## Other information

We have not identified any material misstatements that would need to be referred to in our independent auditors’ report.

## Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

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# INDEPENDENCE

**Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.**

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Standards and Audit Committee in advance in accordance with the Group’s policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

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

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council and the Group.

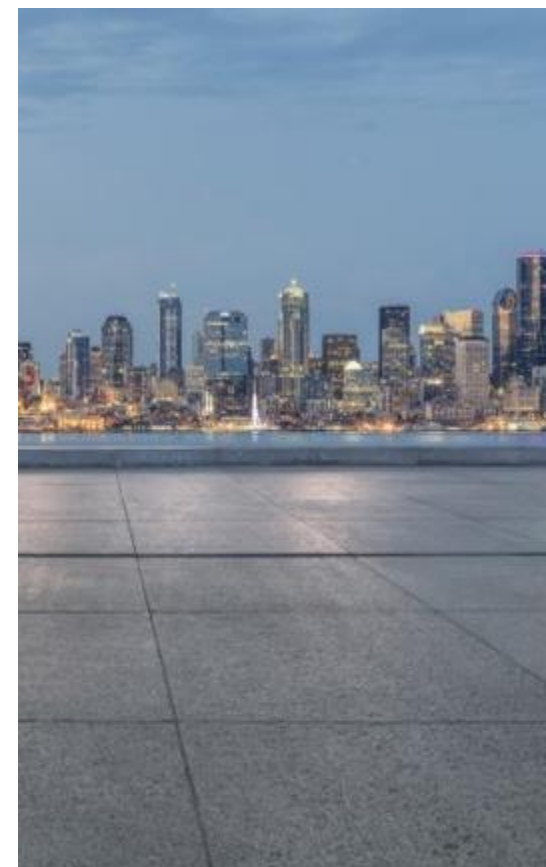
Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

# FEES

## Fees summary

	2018/19	2018/19
	Actual	Planned
	£	£
<b>Audit fee</b>		
• Code audit fee: Council financial statements and use of resources	102,967	102,967
• Additional fees: Group consolidation	TBC	5,000
<b>Total audit fees</b>	<b>TBC</b>	<b>107,967</b>
<b>Fees for reporting on government grants:</b>		
• Housing benefits subsidy claim	TBC	<sup>(1)</sup> 12,650
• Pooling of housing capital receipts return	TBC	7,000
• Teachers' pensions return	TBC	3,500
<b>Fees for other non-audit services</b>	<b>TBC</b>	<b>23,150</b>
<b>Total fees</b>	<b>TBC</b>	<b>131,117</b>

<sup>(1)</sup> This fee is for the initial testing on the base sample of 20 cases per benefit type. Any additional testing required will be charged at £750 per set of "40+ testing" required



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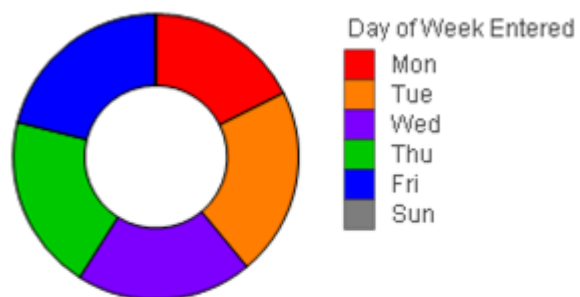
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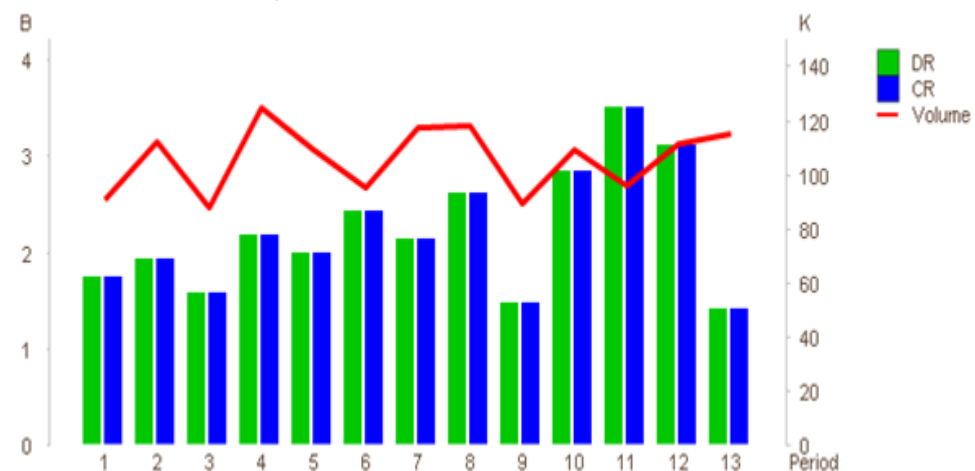
# BDO ADVANTAGE

## Data analytics

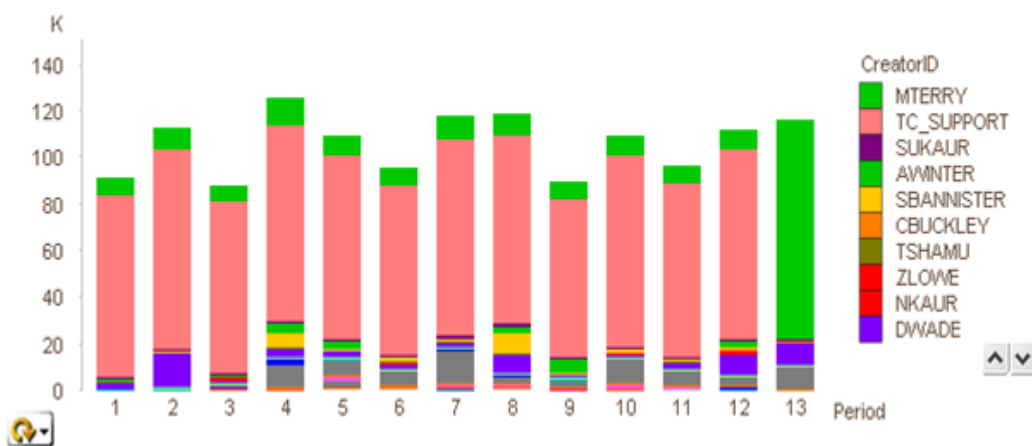
Journal Line Volume by Day of Week Entered



Journal Value and Volume by Period



Journal Line Volume by Creator



We use BDO Advantage to help us in our testing of journals. The tool analyses transaction in different ways like showing who created journals and which day of the week had more journals created. This helps us identify risk areas where we can focus our testing. It one of our tools which helps create efficiencies and identifying risks easily. These are some of the data we get from the tool.

# RESPONSIBILITIES AND REPORTING

## Responsibilities and reporting

### Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Group has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

### What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Standards and Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



## ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	Our work is in progress.
5	Significant matters in connection with related parties.	Our work is in progress.



# COMMUNICATION AND REPORTS ISSUED

## Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Standards and Audit Committee.

## Communication, meetings and feedback

We request feedback from you on our planning and completion reports to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	14 March 2019	Standards and Audit Committee
Audit Completion Report	18 July 2019	Standards and Audit Committee
Annual Audit Letter	(August 2019)	Standards and Audit Committee

# OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Standards and Audit Committee meeting at which this report is considered:

1. Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:
  - Remaining evidence for sample of journals
  - Remaining evidence for sample of debtors and creditors
  - Valuations queries
  - Accounts review queries
2. Audit areas still in progress
  - PPE, heritage assets, Investments/LT debtors, ST Debtors/creditors, Grants income and received in advance, income and expenditure cut-off, Borrowings, Payroll, Related parties and financial instruments, Cash flow statement, Laws and regulations and reserves
3. Manager and Partner review, and clearance of review points
4. Final review and approval by you of the Statement of Accounts
5. Subsequent events review
6. Management letter of representation, as attached in Appendix VI to be approved and signed



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# AUDIT REPORT

[To follow]

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# AUDIT QUALITY

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## BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

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BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
IP3 9SJ

Dear Sirs

**Financial statements of Thurrock Council for the year ended 31 March 2019**

We confirm that the following representations given to you in connection with your audit of the Group and the Council’s financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

[Client name and Letter headed paper]

**Going concern**

We have made an assessment of the Group and the Council’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 1.3 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council’s ability to continue as a going concern.

**Laws and regulations**

In relation to those laws and regulations which provide the legal framework within which the Council’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

**Post balance sheet events**

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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**Fraud and error**

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

**Misstatements**

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

**Related party transactions**

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

There were no loans, transactions or arrangements between any Group entity and the Council’s members or their connected persons at any time in the year which were required to be disclosed.

**Carrying value and classification of assets and liabilities**

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

**Accounting estimates**

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

**a) Pension fund assumptions**

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

Rate of inflation (CPI):	2.4%
Rate of increase in salaries:	3.9%
Rate of increase in pensions:	2.4%
Rate of discounting scheme liabilities:	2.4%
LGPS commutation take up option	50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

**b) Valuation of housing stock and other land and buildings**

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

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We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that surplus assets have been appropriately assessed as level 2 and 3 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

**c) Allowance for non-collection of receivables**

We are satisfied that the impairment allowances for council tax arrears, NDR arrears, housing benefit overpayments, housing rent arrears and parking charges are reasonable, based on collection rate data.

**Litigation and claims**

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

**Confirmation**

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Sean Clark  
Chief Finance Officer

[date]

Councillor Gerard Rice  
Chair of the Standards and Audit Committee

[date]

**FOR MORE INFORMATION:****Lisa Clampin**

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e: lisa.clampin@bdo.co.uk

**Simiso Ngidi**

t: 01473 320861

e: simiso.ngidi@bdo.co.uk

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

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