

THURROCK COUNCIL

Annual Audit Letter

Year ended 31 March 2019

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2019.

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

Responsibilities of auditors and the Council

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

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

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

BDO LLP

3 September 2019

Audit conclusions

Audit area	Conclusion
Financial statements	Unmodified opinion
Use of resources	Unmodified conclusion
Audit certificate	We are unable to issue our audit certificate until we have completed our review of the Whole of Government Accounts return and issued our opinion on the consistency of the return with the audited financial statements.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the audit.

We issued our audit opinion on the financial statements and use of resources conclusion on 2 September 2019, which was after the national deadline of 31 July 2019 due to identification of a prior period adjustment on PPE affecting the group accounts and the consultations around the appropriate treatment and measurement of long term debtor financial instruments. The audit also identified a notable number of adjusted and unadjusted audit differences which increased the time required to complete the audit.

FINANCIAL STATEMENTS

Audit opinion on the financial statements

We issued an unmodified audit opinion on the financial statements. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Final materiality

Materiality was calculated at £6.3 million based on a benchmark of 1.5% of gross expenditure.

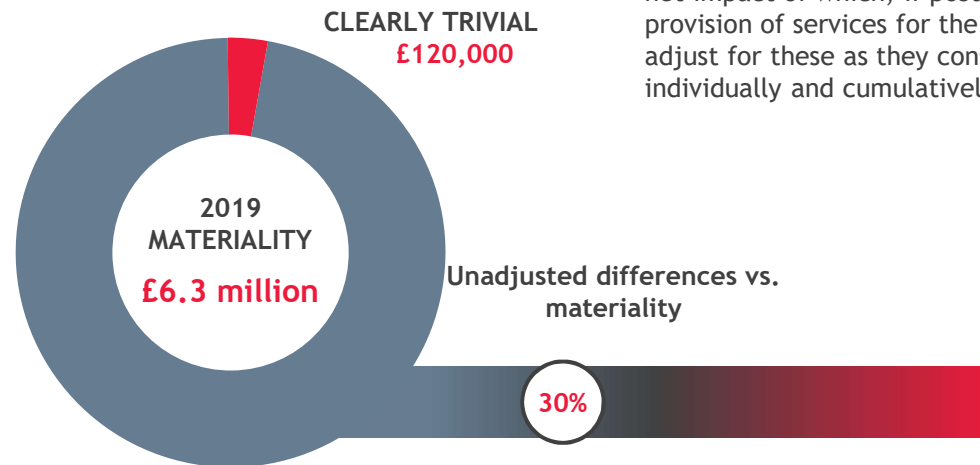
Material misstatements

We have identified four material misstatements:

- A classification change required in the group accounts to correct the consolidation adjustment for borrowing and long term creditors between the Council and Thurrock Regeneration Ltd (TRL), amounting to £31 million.
- A prior year adjustment to reclassify £30.1 million of assets in the group accounts from inventory to PPE. This had no overall impact on either the total value of the group balance sheet or on the value of the group reserves.
- Two misclassification between short term and long term for borrowings (£50 million) and investments (£10 million).

Unadjusted audit differences

We identified twelve unadjusted audit differences, the cumulative net impact of which, if posted, would increase the net surplus on provision of services for the year by £1.9 million. The Council did not adjust for these as they considered them to be immaterial both individually and cumulatively. We concurred with this view.



FINANCIAL STATEMENTS

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

Risk description	How the risk was addressed by our audit	Results
Management override of controls	We carried out the following planned audit procedures: <ul style="list-style-type: none">• Reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation• Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias• Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.	No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias.
Revenue (and expenditure) recognition	We carried out the following planned audit procedures: <ul style="list-style-type: none">- Tested an increased sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria were met- 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.	We identified one instance where expenditure relating to 2017/18 was recognised in the current year and another instance where expenditure relating to 2019/20 was recognised in the current year. We reported these as unadjusted audit differences in our report to those charged with governance.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Valuation of property, plant and equipment	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• 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• Confirmed that assets not specifically valued in the year had been assessed to ensure their reported values remained materially correct.	<p>The Council has a five year rolling programme on the valuation of its PPE, this is in line with the requirements of the financial reporting framework.</p> <p>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.</p> <p>We identified two assets that were not revalued in 2017/18 or 2018/19 even though they fell within the rolling programme of revaluation every five years. These will be taken to the 2019/20 revaluation. We reported these as unadjusted audit differences in our report to those charged with governance.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Pension liability valuation	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • 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 • Checked that any significant changes in membership data have been communicated to the actuary. <p>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 considered further information from the actuary on the impact of this judgement on the pension fund liability.</p>	<p>The Council obtained an updated valuation of the liability to take account of the impact of the McCloud judgement ruling. This suggested that the Council's liability could increase by £4.718 million.</p> <p>Management did not amend this as it is not material and 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 included a disclosure to provide clarity on the current expected impact as noted above. We reported the £4.718 million as an uncorrected misstatement.</p> <p>The results of our testing of the pension liability valuation was satisfactory in all other respects.</p>

FINANCIAL STATEMENTS

Other key issues arising from audit

Two key issues arose during the course of the audit which had a significant impact on the audit strategy and resources.

Prior year adjustment

Audit inquiries in respect of £30.1 million of additions in the current resulted in management concluding that these assets should have been included in the group accounts as property plant and equipment in the prior year, rather than inventories, and in the property, plant and equipment opening balances for 2018/19. We concurred with this view. This adjustment had no overall impact on either the total value of the group balance sheet or on the value of the group reserves in either year.

Financial instruments

Long term debtors amounting to £708 million were not being classified as financial instruments as required by the Code. As a result, further amendments were required in order to ensure the statements complied with IFRS 9, IFRS 7 and IFRS 13. As there is a performance related element to the financial instrument (£268 million principal), they needed to be accounted for at fair value through profit and loss rather than amortised cost. The Council estimated the fair value gain for 2018/19 to be £5.517 million.

We consulted internally with our specialist valuations team and concluded this to be a reasonable estimate. The amount was included within the corrected audit differences.

USE OF RESOURCES

Audit conclusion on use of resources

We issued an unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We set out below the risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Reviewed 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• Sampled a number of savings scheme and plans for detailed review.	<p>We are satisfied that the Council has sufficient arrangements in place over the sustainable deployment of their resources over the MTFS period.</p> <p>The assumptions over cost pressures, reductions in Government funding and income growth were concluded to be reasonable and we had no notable matters to report in respect of the other areas covered by our review of arrangements.</p>

REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £	2017/18 Final £
Audit fee - PSAA scale fee	102,967	102,967	133,723
Additional Audit fee - Group Consolidation	5,000	5,000	7,000
Additional Audit fee - Whistle-blower	0	0	3,120
Additional Audit fee - Work on Financial Instruments valuations and prior period error	9,000	0	0
Non-audit assurance services:			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	(1) 12,650	(1) 12,650	15,664
• Pooling of housing capital receipts return	(1) 7,000	(1) 7,000	12,500
• Teachers' pensions return	(1) 3,500	(1) 3,500	7,000
Total fees	140,182	131,117	179,007

(1) This work is yet to commence and the fees may change.

Additional fees

Additional audit work was required in the current year as a result of misstatements identified in the classification and measurement of financial instruments relating to long term debtors and the identified prior period adjustment with respect to the Group assets. This included consultation with auditor experts from our technical standards team and our valuations specialists.

A fee variation of £9,000 is proposed and will be submitted to PSAA for approval.

REPORTS ISSUED AND FEES

Communication

Reports	Date	To whom
Audit plan	14 March 2019	Standards and Audit Committee
Audit completion report	18 July 2019	Standards and Audit Committee



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the 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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