APPENDIX 1

Report to the Standards and Audit Committee

THURROCK COUNCIL

Audit Completion Report: year ended 31 March 2020

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CONTENTS

WELCOME

Contents

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 2020, 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 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.

Lisa Clampin

11 November 2020

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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 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 and should not be shown to any other person without our express permission in writing. 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.

OVERVIEW

Executive summary

Contents

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 of the Group and use of resources of the Council for the year ended 31 March 2020.

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.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2020 in line with the agreed timetable.

Outstanding matters are listed on page 56 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

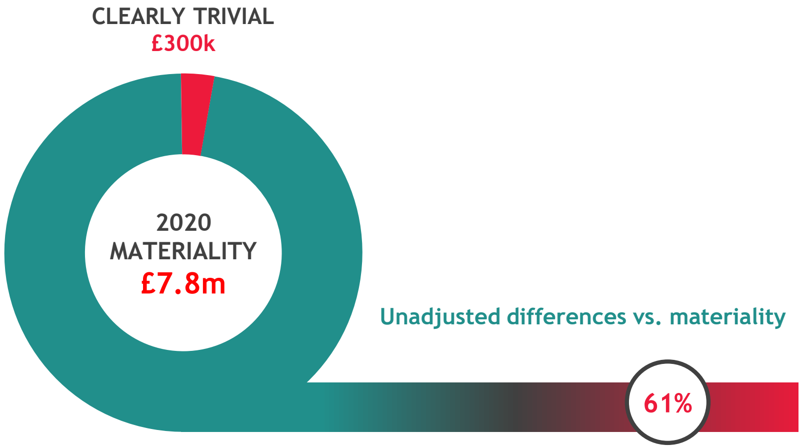
We anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's single entity financial statements as set out on page 49.

The financial statements include disclosures about a material valuation uncertainty in respect of Property, Plant and Equipment, and 'Property' assets within the Local Government Pension Scheme Assets, due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements. We have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Final materiality

Group final materiality was determined based on gross expenditure.

Changes were made to planning triviality as a result of our discussion with management to reflect the expectations of those charged with governance.



Material misstatements

Our audit identified a misclassification between long term debtors and short term debtors. Management has amended the financial statements for this issue, which has no impact on the deficit on the provision of services for the year or the general fund.

Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the Council's deficit on the provision of services for the year by £4.78 million.

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). This objective has been achieved.

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.

Contents

Financial reporting

- 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.
- Going concern disclosures are deemed sufficient.
- The Narrative Report 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 do not expect to issue our opinion on the consistency of the DCT return with the audited financial statements before the deadline of 4 December 2020.

Other matters that require discussion or confirmation

- 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 Council and the Group in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

One of our colleagues at BDO has declared that they have family employed by the Council. The individual is not involved in the audit and they've been advised that they cannot provide any services to the Council.

CORONAVIRUS
The effects on year-end reporting and auditing

Contents

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, directors are required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging from directors, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern directors are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the directors consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the directors' assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of directors' assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

CORONAVIRUS

The effects on year-end reporting and auditing

Contents

Financial reporting implications

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

Leases:

IFRS 16 Leases will be effective from 1 April 2021 (a further one year deferral).

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Coronavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

CORONAVIRUS

The effects on year-end reporting and auditing

Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
  - The valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), intangibles, investments and accounts receivable
  - The valuation and disclosure of financial obligations and any lending covenants
  - Going concern and/or working capital assessment and disclosure
  - Risk disclosures
  - Subsequent event disclosures
  - As noted above, Local Authorities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the Narrative Report and Annual Governance Statement, in particular where we believe there are risks missing from the detail.

Sufficient and appropriate audit evidence:

- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team. We need to:
  - Consider the impact on the audited entity
  - Consider alternative ways of working including the use of our technology tools
  - Consider implications for the quality of audit evidence and reporting.
- In undertaking audit work on the valuation of property, particularly specialised property valued using the Depreciated Replacement Cost method and Modern Equivalent Assets assumptions (including alternative site models), auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Council's financial statements and may be referred to by the auditor in their opinion/report.

OUR METHODOLOGY
Summary

Contents

We obtain the vast majority of our audit evidence through substantive testing

As part of our risk assessment procedures we documented the systems and controls in place insofar as they are relevant to the preparation of the financial statements. With the exception of non-payroll expenditure in the Comprehensive Income and Expenditure Statement (CIES), we determined that substantive testing to directly verify items in the CIES and Balance Sheet would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.

AUDIT RISKS OVERVIEW

Contents

As identified in our Audit Planning Report dated 12 February 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. 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. During the course of the fieldwork stage of our audit, we identified an additional use of resources risk with respect to the Purfleet centre regeneration project.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue recognition	Significant	No	No	No	No	No
Expenditure cut-off	Significant	No	No	No	No	No
Valuation of non-current assets	Significant	Yes	Yes	Yes, adjusted	No	Yes
Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
Valuation of financial instruments	Normal	Yes	Yes	Yes, unadjusted	No	Yes
Allowance for non collection of receivables	Normal	Yes	No	No	No	No
Sustainable finances (use of resources)	Significant	No	No	No	No	No
Purfleet centre regeneration project (use of resources)	Normal	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Contents

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
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:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

We have used our data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.

We identified a number of unusual journal entries posted during the year, having reviewed the journals population for any of the following:

- Entries where the debit is PPE and the credit is to the CIES (other than revaluations adjustments which are expected), e.g. expenditure entries where amounts are being removed from expenditure and posted to capital additions
- Prepayments posted close to the year end which remove amounts from expenditure
- Manual entries posted to debtors or prepayments
- Manual entries posted to cash and bank
- Any unusual trends in the monthly expenditure
- Material journals posted to the least used CIES TB codes
- Journal lines with a blank general ledger account number
- Unbalanced journal entries
- Journals with blank creator field
- Journals with blank journal type field
- Journals with blank entry date field
- Journals with blank journal ID lines
- Journals posted by generic user IDs

Where journals meeting any of the above were identified, they were agreed to supporting documentation, with appropriate explanations obtained for all journals identified.

MANAGEMENT OVERRIDE OF CONTROLS

Continued

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

We have assessed and corroborated significant management estimates and judgements in the following key areas:

- Depreciation
- Accruals and accrued income
- Valuation of property, plant and equipment and heritage assets
- Pension liability
- Bad debt provision
- Valuation of financial instruments
- Going concern assumptions

We have found no evidence of management override or bias for these estimates.

Two adjusted misstatements have been posted in respect of property valuations and one unadjusted misstatement has been identified in respect of financial instruments valuations as outlined on pages 34, 35 and 30 respectively. These misstatements were not indicative of management override or bias.

Discussion and conclusion

Our audit work did not identify any matters to report.

REVENUE RECOGNITION

Contents

Auditing standards presume that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of grant income subject to conditions.

Work performed

We tested an increased sample of revenue grants included in income to documentation from grant paying bodies and checked whether the income recognition criteria had been met.

Results

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

Discussion and conclusion

Our audit work did not identify any issues.

EXPENDITURE CUT-OFF

For public sector bodies the risk of fraud related to expenditure is also relevant.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

For net-spending bodies in the public sector there is also a risk of fraud related to expenditure. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Work performed

We tested an increased sample of expenditure either side of the year end, to confirm that expenditure had 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 expenditure either side of year end confirmed that the expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

Discussion and conclusion

Our audit work did not identify any issues.

VALUATION OF NON-CURRENT ASSETS

Contents

The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
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 (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and 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 was 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 followed 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.

Results

The Council used its internal valuer to value a total of 55 land and buildings assets, which were due for valuation in line with the rolling revaluation programme during the 2019/20 year. The valuer confirmed that there was not a material movement in valuation since the previous valuation date, with the total net movement across all 55 land and buildings assets being £3.4 million. A net revaluation gain has been recognised in respect of this.

We identified a small number of assets which had not been subject to formal re-valuation within the last five years and are not therefore compliant with the requirements of the Code. The valuation movement on these assets has been assessed every year using indices to ensure they are stated at fair value. A recommendation was been raised in respect of this on page 45.

Our review of the instructions to the valuer did not identify any issues. We assessed the valuer's competence, independence and objectivity and determined we could rely on the expert.

We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on the requirements of the Code.

Our work on the accuracy and completeness of asset information used as the basis of valuation, and our review of the valuation calculations, identified errors in 7 of the 23 assets tested with a total net understatement of £1.617 million identified. The

VALUATION OF NON-CURRENT ASSETS

Contents

The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Council has adjusted for 2 of these misstatements resulting in a net increase in asset valuations of £1.748 million. The remaining misstatements are individually and cumulatively below our triviality threshold.

The valuer has included the following statement within their report:

"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is/are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty - and a higher degree of caution - should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of [this property] under frequent review"

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 did not identify any issues.

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

Discussion and conclusion

We identified misstatements in respect of the input data used and management has adjusted the financial statements for the most significant differences. We have reported as adjusted audit differences.

The details of the caveat issued by the valuer have been included within the narrative disclosure within Note 4 to the financial statements. An emphasis of matter paragraph will be included in our auditors report as a result of this statement.

VALUATION OF NON-CURRENT ASSETS 2

Significant estimate – Council Dwellings

Contents

Council dwellings at open Market Value Social Housing (£720 million)

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 0.4% increase in valuations has been applied to each property for 2019/20. The 0.4% increase applied to the HRA stock has been calculated based on the average movement in 31 archetypal properties per land registry data for 2019/20. 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 movements ranging from a decrease of -0.86% to an increase of 0.46% over the same period. The 0.4% increase applied by the Council is therefore within this expected range. The Council’s uplift is based on recent sales and we consider the valuation uplift applied to be reasonable. We are satisfied that the Council dwellings valuations are based on reasonable assumptions and not materially misstated.

< lower **Impact of assumptions on the estimate** higher >

VALUATION OF NON-CURRENT ASSETS 2

Significant estimate – Schools and leisure centres

Contents

Council buildings at Depreciated Replacement Cost

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.

The valuer has used tender rebuild prices provided by RICS (using the lower end prices) with a Thurrock location cost adjustment, using an appropriate rebuild cost per square foot for each type of property. The valuer has applied an aging adjustment using the original build date of the property and standard useful economic lives for each type of property to reflect the percentage of the remaining economic live in years.

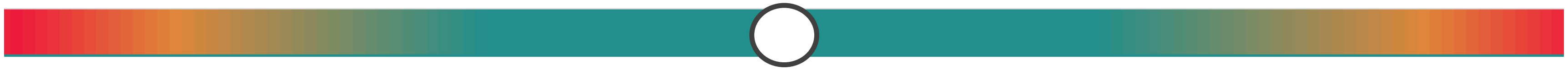
For a sample of properties we confirmed that the size (square metre) agrees to estates records and that the tender price used agrees to the RICS tender prices. Appropriate evidence was obtained for all assets.

We compared the percentage movement of revalued assets to general market data from the BCIS tender price index with local pricing adjustments using information provided by Gerald Eve LLP and RICS, and challenged the valuer for any valuations that were outside of an acceptable range.

We are satisfied that the Council buildings asset valuations are based on reasonable assumptions and not materially misstated.

We identified one misstatement where the Council used an incorrect percentage for ageing and management adjusted for the error.

< lower | **Impact of assumptions on the estimate** | higher >



VALUATION OF NON-CURRENT ASSETS 2

Significant estimate – Other land and buildings

Council’s other land and buildings at Existing Use Value

Other land and buildings (industrial, retail and office) valued at existing use current value have 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, 2017 or 2018, 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 the capital values in the South East from Q1 2019 to Q1 2020, being an increase of 1.4%. We are satisfied that the industrial asset valuations are based on reasonable assumptions and not materially misstated.

RETAIL

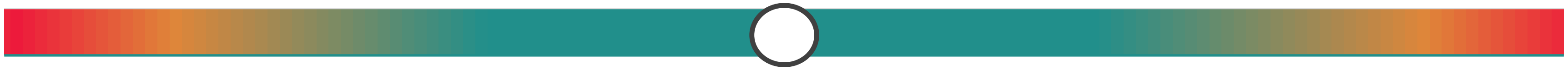
The market conditions for retail are much more consistent across the external research, describing a changing but stagnant market, which is particularly appropriate to Thurrock where the majority are small shops where the market rent struggles to be charged and rents have not moved for several years.

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 2019/20 movements. We are satisfied that the office asset valuations are based on reasonable assumptions and not materially misstated.

< lower | Impact of assumptions on the estimate | higher >



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VALUATION OF PENSION LIABILITY

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council’s share of the scheme 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.

Results

Our review of skills and expertise of the actuary, alongside the assurance from PwC consulting actuary, confirmed that we can rely on the management expert.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on page 23.

Essex Pension Fund has established controls and procedures to ensure completeness and accuracy of membership data provided to the actuary. The pension fund auditor, on our behalf, has reviewed these controls and confirmed that their review of the controls to ensure data provided to the actuary is complete and accurate did not identify any issues.

We obtained a letter of assurance from the pension fund auditor which confirmed that the auditor has obtained the final data return submitted to the actuary in respect of the triennial valuation and agreed the number of members to the member administration system. The pension fund auditor has reconciled the number of members by each category (active members, deferred members and pensioners) per the final data return to the membership data reported in the final

VALUATION OF PENSION LIABILITY

Contents

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

triennial valuation report. The pension fund auditor has also selected a sample of 40 members across the whole pension fund, split between active members, deferred members and pensioners, and has tested the key data points such as date of birth, gender, pensionable salary and qualifying service period etc. to underlying supporting documents. This audit work has not identified any issues.

In respect of the share of pension fund assets attributable to the Council, we obtained assurance from the pension fund auditor, who, on our behalf, has performed detailed testing over investment assets and confirmed that no material issues have been identified.

The pension fund auditor has confirmed in their assurance letter that the valuation of property assets has been reported on the basis of 'material valuation uncertainty' due to Covid-19, and this is in line with guidance from Royal Institute of Chartered Surveyors (RICS). As reported in the IAS 19 report, the Council's share of property assets within the gross pension assets is £39.033 million. Management has included additional disclosures about this matter.

We anticipate including an Emphasis of Matter paragraph within our audit opinion to refer to this.

From discussions with management, and from our audit procedures performed on the payroll expenses, we have not identified any significant changes in membership data during the year. This data is subjected to data confirmation with individual employers to ensure that they are reasonable. We are therefore satisfied that there were no significant changes in membership data during the year.

We agreed disclosures in Note 28 to the financial statements to the information provided by the actuary and have not identified any issues.

Following the ruling on age discrimination on the McCloud case and gender discrimination on a Lloyds case in the prior year, the actuary made an allowance at the last accounting date and this. The Council chose not to amend their the pension fund liability in their statement of accounts for this in the prior year, and this was not therefore, included in the opening liability for this year. This allowance was therefore incorporated into the in-year movements on the pension fund in 2019/20. The actuary has confirmed that this was re-measured at 31 March 2020. The approach adopted by the actuary is considered to be reasonable.

Discussion and conclusion

Our audit work did not identify any issues.

VALUATION OF PENSION LIABILITY 2

Significant estimate - Pension liabilities

Contents

Council's pension liabilities (£151,458k LGPS Funded Scheme and £7,436k Unfunded benefits)

The Council's pension liability has decreased from £614 million to £585.5 million and it's share of the scheme assets decreased from £459.5 million to £434.1 million. The net deficit decreased by £3.7 million to £158.9 million. The decreased 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
Financials:			
- RPI increase	2.70%	2.65 - 2.80%	Reasonable
- CPI increase	1.90%	1.85 - 1.95%	Reasonable
- Salary increase	2.90%	2.85 - 2.95%	Reasonable - short term CPI to 2020 and long term: CPI plus 1.0%
- Pension increase	1.90%	1.85 - 1.95%	Reasonable
- Discount rate	2.35%	2.35	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	23.2 years	22.8 - 24.7	Reasonable
- Female current	25.2 years	25.2 - 26.2	Reasonable
- Male retired	21.8 years	21.4 - 23.3	Reasonable
- Female retired	23.7 years	23.7 - 24.7	Reasonable
Mortality gains	CMI 2018 (7.0-7.5 smoothing factor and additional initial rate of o-o.5% and 1.25-1,50% pa long term rate		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.

< lower **Impact of assumptions on the estimate** higher >

ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES

Contents

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

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied. IFRS 9's Expected Credit Loss model applies to financial assets but does not include amounts receivable under statute such as council tax and business rates receivables.

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 of Practice in Local Authority Accounting in the UK) 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. We identified that management doesn't use historic recovery rates to assess the provision required for it debtors. We assessed management assumptions and we did not find any evidence of bias. We have included a recommendation to management on the use of historic recovery rates to calculate the required provision. We did not identify any issues with IFRS 9 disclosures.

Discussion and conclusion

We have included a recommendation to management on the use of historic recovery rates to calculate the required provision. We did not identify any issues with IFRS 9 disclosures.

VALUATION OF FINANCIAL INSTRUMENTS

The valuation of financial instruments involves a degree of estimation uncertainty.

- Significant risk
- Normal risk
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant control findings to be reported
- Letter of representation point

Risk description

There is a risk over the valuation of the financial instruments designated at fair value through profit and loss, these are valued using techniques which have a high level of estimation uncertainty.

Work performed

We engaged our valuations team to assess the reasonableness of the assumptions applied and agree input data to source documentations.

Results

We have assessed the reasonableness of the assumptions applied and agreed input data to source documentations. We found the assumptions to be reasonable.

Discussion and conclusion

Our audit work identified an error of £817,000 on the valuation of financial instruments. This value represents the movement in valuation between 31 March 2019 and 31 March 2020, which the Council has chosen not to adjust for in the financial statements. This has been recorded as an unadjusted audit difference on page 30.

GOING CONCERN

Contents

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

Management's assessment of going concern

Management has made an assessment of the ability of the Council to continue as a going concern, which is as follows:

"As stated in CIPFA Bulletin 5, …As authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for local authority financial statements to be prepared on anything other than a going concern basis. Paragraph 3.4.2.23 of the Code therefore confirms as a matter of fact that local authority accounts must be prepared on a going concern basis…

..The requirements to use the going concern basis of accounting means that authorities therefore cannot apply paragraph 25 of IAS 1 mandating management to make an assessment of the authority's ability to continue as a going concern..

The going concern assumption under the Code is therefore drawn up to assume that a local authority's services will continue to operate for the foreseeable future. This is despite the impact of COVID-19 on local authority financial sustainability because the going concern basis of reporting in the Code and the rationale behind it remains unchanged.

Separate to this is the need for local authorities to report on the impact of financial pressures in the narrative report. This has been reported in the Statement of Accounts – narrative report, there is a section which covers Cash flow Management as a result of COVID 19. The relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures, needs to have considered in light of COVID 19. Investment has been in simple deposits, bonds or investment in Solar Farms and renewables. Generally COVID 19 has not adversely affected this sector in terms of Solar Farms/renewables and therefore the ECL has not significantly changed from PY."

Discussion and conclusion

The financial outturn for 2019/20 reported a positive financial position with the Council able to increase usable reserves held as a result. Total general fund and housing revenue account (HRA) balances have increased to £38.2 million compared to £35.2 million as at 31 March 2019 and £22.0 million as at 31 March 2018.

The quarter 1 finance report for 2020/21 was presented to Cabinet on 16 September 2020, showing that the Council is projecting to overspend against the budget for 2020/21 by £6.295 million. Additional costs and lost income arising as a result of COVID-19 are reported as £12.964 million, with additional funding received for this being £10.757 million, meaning that of the £6.295 million projected overspend, only £2.207 million is as a direct result of COVID-19.

Of the remaining projected net overspend, the majority of this (£3.480 million) is the anticipated lost income from placing the investment strategy on hold.

The original budget assumed that more investments would be purchased in 2020/21 and income would be generated from these. In response to COVID-19 and in order to ensure that the Council has adequate cash available to cover any additional costs arising, no further investments will be made and associated receipts are forfeited. This is therefore indirectly related to COVID-19.

GOING CONCERN

Contents

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

As part of the quarter 1 finance report detailed above, revisions have also been made to the Medium Term Financial Strategy (MTFS). This was initially produced in February 2020 and covered a 4 year period, with a total budget gap of £5.595 million over the 4 years.

The budget gap for this period has now been revised to £33.673 million, including a gap of £19.3 million in 2021/22. This is as a result of a combination of factors including: projected decreases in council tax and NNDR income, increased costs in areas such as social care, and loss of income from fees and charges as a result of venues being shut. The biggest proportion of this decline is the loss of investment income due to the freeze on the investment strategy (as detailed above), which contributes £11.973 million of the deterioration.

There is, however, no expectation for a significant worsening of the financial position in the short term. All non-essential expenditure (both capital and revenue) was frozen in the early stages of the pandemic. The Council's concerns are in the medium to longer term, when the additional assistance from central government ends.

The revised budget presented to September 2020 Cabinet lists out the following factors as potential financial risks:

- The impact of covid-19 on adult social care costs
- The potential for non-HRA housing benefit claims to go up once landlords have the ability to evict tenants unable to pay their rent
- Any potential costs from ensuring social distancing rules are in place in school transport systems such as buses
- The potential loss of theatre income if the Christmas pantomime season is unable to go ahead.

The impact of the above four factors is not fully understood at the point of writing. The Council's best estimate, is net additional expenditure of £1.5 million from these 4 factors. These factors may have a significantly lower impact however, so the position could be up to £1.5 million better than currently predicted. They could also equally have a much greater impact than the predicted £1.5 million.

The initial MTFS included surpluses of £5.8 million and £4.1 million for 2020/21 and 2021/22 respectively. The Council expects these previously planned surpluses to be sufficient to allow it to maintain a balanced budget in 2020/21, but there is an expectation that the impact of COVID-19 may create a budget gap from 2021/22, which wasn't present in the initial MTFS.

Reserves have been increased over the last few years, with the general fund increased by 40% since 2016/17, the creation of a £6 million financial resilience reserve and a £1.5 million social services reserve. There is an expectation that reserves will need to be utilised in 2020/21. The Council then plan to find schemes to close the budget gap from 2021/22, and plan to get reserves back to the levels held at 31 March 2020 within 5 years. We have reviewed the plans and conclude them to be ambitious but not unrealistic.

Overall, the Council is concluded to remain a going concern. However there are significant budget gaps which need to be addressed in the medium term.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

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 Planning Report on 12 March 2020.

Internal audit

We reviewed the audit work of the Group'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.

We did not identify any significant matters in connection with related parties.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

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

There are five unadjusted audit differences identified by our audit work which would decrease the deficit on the provision of services for the year of £10.086 million by £4.780 million and would increase net assets of £687.288 million by £476,000.

The general fund balance would increase by £325,000 if these audit differences were adjusted.

You consider these differences to be immaterial in the context of the financial statements as a whole.

In addition, an adjustment of £1.155 million has been posted in-year in the group movement in reserves statement (MiRS) to correct the subsidiary amounts consolidated into the group accounts in the prior year. Group usable reserves in the prior period financial statements are understated by £1.155 million, with the surplus in the prior period group CIES therefore understated by £1.155 million. This adjustment has been posted in the current year on the face of the MiRS and has not been posted to the CIES. As a result of this, there is a difference of £1.155 million between the movement in opening and closing reserves in the balance sheet and the total comprehensive income and expenditure reported in the CIES. This has no impact on the cumulative position as at 31 March 2020.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	CR £'000	DR £'000	CR £'000
Retained deficit on the provision of services for the year before adjustments	10,086				
Adjustment 1: Fair value of financial instrument not updated (judgemental)					
DR Long Term Debtors				817	
CR Fair value gain (CIES)	(817)		817		
Adjustment 2: VAT Debtor recorded as both debtor and provision (factual)					
DR Provisions				1,120	
CR Short Term Debtors					1,120

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Impact of adjustments brought forward from prior year

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	CR £'000	DR £'000	CR £'000
Adjustment 3: Changes in net defined benefit liability as a result of the McCloud judgement on pension funds - this should have been recognised in 2018/19, and was instead posted in 2019/20. The adjustment therefore shows the in-year impact on the CIES, the cumulative position is correct					
DR Pension reserve				3,979	
CR Current service cost (CIES)	(3,979)		3,979		
Adjustment 4: Value of an asset entered on fixed asset register as £598,560. The valuer's assessment of the asset was £437,000. Therefore the asset is overstated by £161,560. This error was extrapolated to £341,000					
DR Revaluation gain (CIES)	341	341			
CR Property, Plant and Equipment					341
Adjustment 5: Unreconciled differences between housing benefit claim form and expenditure in the general ledger from 2018/19 - impact on 2019/20 CIES					
DR General fund				325	
CR Housing benefit expenditure (CIES)	(325)		325		
Total unadjusted audit differences	**(4,780)**	**341**	**5,121**	**6,241**	**1,461**
Deficit on the provision of services for the year if above issues adjusted	5,306				

UNADJUSTED AUDIT DIFFERENCES: DETAIL 1

Details for the current year

Contents

Impact on the General Fund balance	General Fund balance £'000
Balance before unadjusted audit differences	11,000
Impact on deficit on the provision of services above	4,780
Adjustments that would be reversed from the General Fund through the Movement in Reserves Statement	(4,455)
Balances after the above adjustments	**11,325**

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

There were six audit differences identified by our audit work that were adjusted by management. This increased draft net assets of £687.288 million by £1.748 million.

There was no impact on the deficit on the provision of services for the year or the general fund balance.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	CR £'000	DR £'000	CR £'000
Retained deficit on the provision of services for the year before adjustments	10,086				
Adjustment 1: Misclassification of short term debtor as long term debtor					
DR Short term debtors				30,000	
CR Long term debtors					30,000
Adjustment 2: Misclassification of short term loan as long term loan					
DR Long term borrowings				5,000	
CR Short term borrowings					5,000
Adjustment 3: Inaccurate data used on valuation of PPE					
DR Property, plant and equipment				1,976	
CR Revaluation gain (Other Comprehensive Income)			1,976		

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	CR £'000	DR £'000	CR £'000
Adjustment 4: Reduction in HRA Expenditure included as income in CIES					
DR HRA Income	728	728			
CR HRA expenditure	(728)		728		
Adjustment 5: Overstatement of accrual for PPE additions					
DR Creditors				284	
CR Property, Plant and Equipment					284
Adjustment 6: Adjustment for misstatement in PPE valuation calculation					
DR Revaluation gain (Other Comprehensive Income)		228			
CR Property, Plant and Equipment					228
Total Adjusted audit differences	0	956	2,704	37,260	35,512
Adjusted retained deficit on the provision of services for the year	10,086				

REPORTING ON OTHER INFORMATION

Contents

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

Contents

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.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council submitted this on 10 November 2020. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements. We do not expect to issue our opinion on the consistency of the DCT return with the audited financial statements before the 4 December 2020 deadline.

OVERVIEW

Contents

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.

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.

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources. We have subsequently included a further risk relating to the Purfleet centre regeneration project.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	No
Purfleet centre regeneration project	Informed decision making	Normal	No

SUSTAINABLE FINANCES (USE OF RESOURCES)

The Council will need to deliver it savings and achieve 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 to be reported	■

Risk description from Audit Plan

The Medium Term Financial Strategy (MTFS) covering the period from 2020/21 to 2024/25 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 three of the five years of the MTFS period. Delivery of the Council's commercial investment strategy is key to the achievement of the MTFS. The Council has reported a number of service pressures on the General Fund and expected delays on the achievement of investment income for 2019/20 as at the end of September 2019. The current MTFS has identified savings of £0.9m for 2020/21 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 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:

- Reviewed the assumptions used in the MTFS and assessed 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 schemes and plans for detailed review.

Results

We reviewed the latest Medium Term Financial Strategy (MTFS) which covers the five year period to 2024/25. Prior to the coronavirus pandemic, the Council budgeted for a surplus of £4,074 million in 2020/21. The MTFS forecast a budget gap totalling £1.5m over the remaining four years which will need to be funded through either savings or additional revenue in order to maintain the current general fund position.

The MTFS was revised following the coronavirus pandemic, and now includes budget gaps of £19.318 million in 2021/22, £7.437 million in 2022/23, £6.918 million in 2023/24 and £3.483 million in 2024/25.

Although the current budget gap is significant the Council is aware of the importance of finding sustainable savings or new revenue streams.

SUSTAINABLE FINANCES (USE OF RESOURCES)

Continued

The Council will need to deliver it savings and achieve 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 to be reported	■

We have reviewed the assumptions used in developing the MTFS and have found these to be reasonable. A prudent approach to expectations of future government funding has been adopted by the Council.

Whilst the Council has identified a significant funding gap, action is being taken to ensure the matter is addressed and this is largely as a result of the coronavirus pandemic. Based on in-year arrangements alone, there would be limited concerns regarding future budget gaps. The Council has a track record of achieving its financial plans.

Sufficient reserves and balances are available to support the Council's services in the short term.

A total savings plan of £2.225 million was set for 2019/20. The Council does not monitor performance against individual savings targets, but instead notes for each service area, where the overall performance is above or below budget. Some services incurred overspends against the budget, whilst others were underspent. There is an overall underspend for 2019/20, which allowed the Council to increase its level of earmarked reserves.

The Council initially budgeted for savings of £900,000 for 2020/21. Given the coronavirus pandemic, the expectation is that the majority of this will not be achieved, the August 2020 projection being only £130,000. As part of the revisions to the MTFS issued to Cabinet in September 2020, all savings targets in the MTFS period have been removed, and delivery of savings will not therefore be monitored in the short to medium term.

Without factoring in the changes arising due to COVID-19, while there was a recognised funding gap in the MTFS, we are satisfied that the Council had sufficient reserves available in the short to medium term and was undertaking appropriate arrangements to manage the budget gap in a way that would ensure it remained financially sustainable over the period of the MTFS.

As at the time of writing, the Council has not produced a plan for closing the budget gaps identified from the revised MTFS. Our VFM conclusion is based on in-year arrangements and we conclude that the Council had proper arrangements to ensure that in 2019/20 it deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

PURFLEET CENTRE REGENERATION PROJECT (USE OF RESOURCES)

Contents

Purfleet centre regeneration project

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

Risk description

During the period of the audit, information was brought to our attention regarding progress with the Purfleet Centre Regeneration project and the Council's associated decision making and monitoring processes.

Risk indicators included:

- The project aimed to build 3,000 new homes, with work due to commence in 2018 but no work has yet started
- One of the original major investors in the project has withdrawn

The total cost of this project is expected to be between £700 million and £800 million, although this is only partially funded by the Council. This is therefore a significant project which the Council will be investing in, and any concerns over the value for money of this project lead to a risk regarding informed decision making. A risk has therefore been raised in this respect.

Work performed

We reviewed:

- The history of the project and the reasons resulting in delays to it starting
- The actions taken by the Council in light of the withdrawal of a major investor
- The amount of public money being spent on the project, and whether the Council has appropriate arrangements in place to secure value for money.

Results

The key reasons for delay are due to objections received with respect to the project. An objection was received from the Environment Agency and related to the potential for a future Thames barrier which would need to be located within the site being developed.

The objection relates specifically to two hectares of land which represent a potential future site for this barrier. The environment agency wants to safeguard this land now, in order to avoid issuing a compulsory purchase order in 30 years' time to acquire the residential properties which were planned to be built on the land.

A second objection was also received from Highways England. This related to the potential impact building a large volume of new homes would have on junction 30 of the M25.

The most recent report to Cabinet on the project, as at the time of writing, was presented on 11 March 2020. This report relates to the revised planning proposals after adjustments had been made for objections received, and was a proposal put forward to approve the appropriation of the land for the first 61 residential properties within the project. The plans for the remainder of the project are to be presented to Cabinet at a later date.

PURFLEET CENTRE REGENERATION PROJECT (USE OF RESOURCES)

Contents

Purfleet centre regeneration project

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

The Council brought the planning applications to the January 2018 planning committee meeting with the intention of starting construction that year. As a result of delays in agreeing contracts with Purfleet Centre Regeneration Limited (PCRL) and their initial inability to evidence that full funding for the project is available, there have been delays to the project. The plans for the first phase of land appropriation were brought to Cabinet in March 2020.

The investor dropping out of the project was London and Quadrant Housing Trust, who were replaced by Swan Housing Association. Swan have taken over the role that London and Quadrant had been providing, and there are no implications to the project overall of this change. This change occurred in 2017 and was as a result of an internal restructure within PCRL.

The costs to the Council of this project to date are approximately £8.76 million, of which £5 million has been spent on land and £3.76 million on professional fees and associated costs. The land invested came to the Council from the former Thames Gateway Development Corporation. The total cost of the project is expected to be between £700 million and £800 million, with the Council expected to incur around £74 million as its share of this total cost, consisting of £60 million of land, a £9 million contribution towards a proposed school included within the project and £5 million of capital. It was confirmed that no land has been committed to the project to date.

When the project was first entered into, there was an expectation for the Council to generate some level of return from it. There will also be additional return as a result of the improvements to the infrastructure in the area and potentially from future increases in property valuations.

There have, however, been a number of major obstacles which were not foreseen when the project was started, the most significant of which being the Thames Barrier plans detailed above. Other issues include the development planned on the land alongside the Thames river having to be further revised due to the land not being high enough to meet flood requirements, and the need to replace a train level cross with a bridge over the railway line.

Any additional costs arising from changes to the project will be borne by PCRL. The Council's exposure is limited to the £74 million referenced above. This amount has not changed and so inflationary and other costs associated with these issues do not impact the Council. There will however be ongoing legal costs and business planning costs as the Council finalises the agreements, which could lead to additional costs to the Council.

The remainder of the financial exposure lies with Purfleet Centre Regeneration Limited (PCRL), and therefore if the project were to fail, the Council's only potential loss would be the £74 million, and any income which could have been generated from alternative uses made of the land. No land has so far been committed to the project. The Council is still performing its own reviews in respect of whether this project achieves value for money for the taxpayer. The Council is not inextricably committed to continuing with the project and we understand from our discussions with the Corporate Director of Finance, Governance and Property that the Council will not invest the remainder of the land unless satisfied that the project will be value for money and will provide a positive return.

PURFLEET CENTRE REGENERATION PROJECT (USE OF RESOURCES)

Purfleet centre regeneration project

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

The Council is working with CBRE in order to ensure that the cash, infrastructure improvements and housing equate to a reasonable return to the Council. This includes an assessment of the financial viability of the entire scheme in order to ensure that the Council does not pick up a failed project at a later date. The Council expect to conclude on this exercise in early December 2020 and report to Cabinet.

Based on the documentation provided and the observations above, we have not identified any issues with regards to the Council's arrangements to ensure there is appropriately informed decision making. The Council is concluded to have taken appropriate and reasonably timely action in response to changes to the project as and when they arose, and is taking appropriate action to limit its financial risk exposure in light of those changes.

The Council is also concluded to have appropriate plans for the assessment of the value for money of the project.

SIGNIFICANT DEFICIENCIES

Contents

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 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.

Our audit to date has not identified any significant deficiencies in internal controls not previously reported. The deficiency raised in the prior year regarding journals as detailed on page 47, is considered to be significant.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Assets not revalued within five years	It was noted that there are at least three assets which had not been subject to valuation for more than 5 years. There is a risk that the asset values have changed significantly since their last valuation. This approach is also inconsistent with the requirements of the Code.	A review is undertaken for any assets not revalued within the last 5 years, with all assets identified subject to valuation in the next financial year.	The relevant assets will be incorporated into the cyclical review in 2020/21
Review of system access rights	For all IT systems, the access rights are reviewed on a periodic basis, but this review is not always documented to evidence that it has taken place. If the review did not take place in a given month, it is unlikely that this failure in the control process would be identified.	Fully document each review of user access rights to evidence that it has been performed, whether or not any changes are identified from this review.	Separate systems are subject to periodic reviews of access - work will be undertaken to review this and consider the implementation of an agreed systematic review process.
Allowance for non-collection of receivables	Management does not use historical recovery rates to assess the recoverability of its debtors. The percentages used to calculate the bad debt provision may not be reflective of the actual expected recovery rates.	Revise the basis of provision calculation to take into account historical collection rate data.	The use of historical data will be considered in the calculation of the bad debt provision going forwards.

OTHER DEFICIENCIES

Contents

Area	Observation & implication	Recommendation	Management response
Payroll contracts	Employment contracts could not be located for 7 of the 40 individuals within our selected payroll sample. Of the 33 that were obtained, 6 had not been signed. We understand from management that some of these contracts are paper based and the ongoing pandemic has made it more challenging to obtain these. The contract which confirms the starting salary and terms or conditions of employment, is an important document which protects both the employer, and the employee if ever a dispute arose. It also confirms the employee is a valid employee. If there was ever a dispute over pay or performance the employer would not have evidence or supporting documentation to back up their claims against the employee.	Ensure that easily obtainable signed contracts are in place for all employees.	This issue will be superseded by an electronic sign off process which is being implemented in the Oracle system.

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	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.	There has been no change from the prior year.	2018/19 response 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

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Contents

Area	Issue and impact	Original recommendation	Progress	Management response
HRA	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. 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. 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.	We recommend that the Council conducts the following: • 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 • 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; 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.	The reconciliation of the HRA disclosures to the fixed asset register was successfully performed in the current year.	Not applicable.

OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the Group and the Council financial statements.

The financial statements include disclosures about a material valuation uncertainty in respect of Property, Plant and Equipment, and ‘Property’ assets within the Local Government Pension Scheme Assets, due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

Conclusion on use of resources

We are proposing to issue an unmodified conclusion on the Council’s use of resources.

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.

Other information

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

INDEPENDENCE

Contents

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 2020.

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 on the following page and were provided in our Audit Planning Report. 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 Planning Report.

One of our colleagues at BDO has declared that they have family employed by the Council. The individual is not involved in the audit and they've been advised that they cannot provide any services to the Council.

We have not identified any other 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 Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and 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

Contents

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	(3)TBC	107,967	102,967
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	(2)TBC	(1)14,900	14,900
• Pooling of housing capital receipts return	(2)TBC	3,500	3,500
• Teachers' pensions return	7,000	7,000	7,000
Fees for other non-audit services	TBC	25,400	25,400
Total fees	**TBC**	**133,367**	**128,367**

(1) The certification fee for housing benefit subsidy is on the basis that the Council performs the initial testing and we will re-perform. This also assumes three or less 40+ detailed testing during the year.

(2) Work on 2019/20 housing benefit subsidy claim and pooling of housing capital receipts return has not yet been undertaken.

(3) The 2019/20 planned Code audit fee is the PSAA-published level. The Scale is based on the historical position from 2012/13 and so does not reflect any of the changes in audit scope and depth linked to current audit requirements for property, plant and equipment or pensions liability valuation work. Discussions on the total fee impact will be held initially with officers in the context of detailed operational planning and interim audit scope so as to best mitigate increases.

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

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 consolidated and Council financial statements. We report our opinion on the financial statements to the directors 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 Council had 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

Contents

	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.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.
	Group matters	
6	Limitations on the audit where information was restricted.	No exceptions to note.
7	Any issues with the quality of component auditors work.	No exceptions to note.
8	Any fraud or suspected fraud at group or component level.	No exceptions to note.

COMMUNICATION WITH YOU

Contents

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.

In communicating with TCWG of the Council and the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

Communication, meetings and feedback

We request feedback from you on our planning and completion report 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 Planning Report	12 March 2020	Standards and Audit Committee
Audit Completion Report	24 November 2020	Standards and Audit Committee
Annual Audit Letter	11 March 2021	Standards and Audit Committee

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2020.

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:

- Final Manager and Partner review and clearance of review points within our file
- Final review and approval by you of the Statement of Accounts
- Completion procedures:
  - Checks on approved Statement of Accounts
  - Subsequent events review up to the date of signing
  - Management letter of representation, as attached on pages 64 to 66 to be approved and signed

LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

Contents

A number of corporate governance, financial reporting and audit failures since the ‘financial crises’ have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	‘Carillion’ report issued 5/2018	‘Future of audit’ report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report ‘Statutory Audit Services Market Study’	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
‘Report of the Independent Review in to the quality and Effectiveness of Audit’ - Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
‘Independent Review of the FRC’ by Sir John Kingman	Kingman Report published - 83 recommendations 18/12/2018	Secretary of State announces plans for a new regulator (ARGA) 11/3/2019	48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019			Further consultations expected in 2020

LATEST REGULATORY DEVELOPMENTS 2

Continued

Contents

Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC - requested by the Secretary of State	• Highlighted deficiencies in FRC and its operating effectiveness • New regulator to replace FRC 'Audit, Reporting and Governance Authority' • Reconsideration of which entities are classed as 'public interest' A number of changes require legislation changes but the FRC is working on implementation where possible.
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	The proposals being classed as: • FRC and BEIS will implement as soon as possible • Can be implemented once considered, in advance of legislation • Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	Report 18 April 2019 – suggestions include • Increased accountability of audit committees including a focus on how they select auditors and their consideration of audit quality • Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews • An operational split between the audit and non audit practices of the big 4 • A 5 year review of progress by the new regulator Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

LATEST REGULATORY DEVELOPMENTS 3

Continued

Contents

Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' - 24 April	Consideration of 2 reports – CMA and Kingman – to ensure they will lead to coherent framework	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular: • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGA – deal with failures more quickly and more stringently Published June 2019.

LATEST REGULATORY DEVELOPMENTS 4

Brydon

Contents

In December 2019 Sir Donald Brydon published his "Report of the Independent Review in to the quality and Effectiveness of Audit" . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors' Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGA – the new regulator.

Key considerations for Audit Firms

- A new definition of audit: " The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements."
- Recognition of other stakeholders alongside the company's shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for 'professional suspicion' alongside 'professional scepticism';
- Replace 'true and fair' with 'present fairly, in all material respects';
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors' statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company's internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee Chair and the auditor.

LATEST REGULATORY DEVELOPMENTS 5

Redmond

Contents

On 8 September 2020, Sir Tony Redmond published his *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
  - an annual report being submitted to Full Council by the external auditor;
  - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
  - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

FRC ETHICAL STANDARD

Issued in December 2019

Contents

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

FRC PRACTICE AID FOR AUDIT COMMITTEES

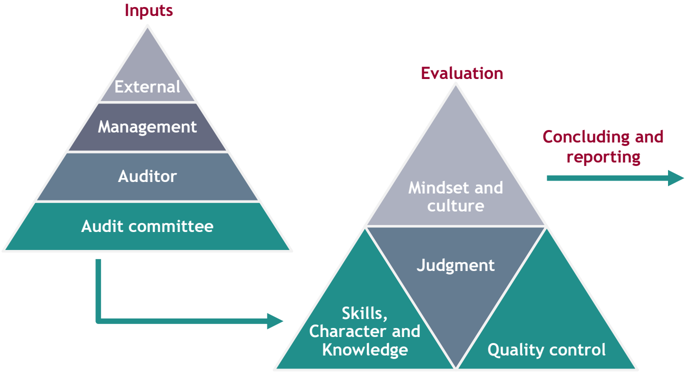
Contents

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the **FRC website**. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the **FRC website**.

Letter of representation

Contents

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Thurrock Council for the year ended 31 March 2020

We confirm that the following representations given to you in connection with your audit of the Group and the Council' financial statements for the year ended 31 March 2020 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 2020 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.

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.

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):	1.90%
Rate of increase in salaries:	2.90%
Rate of increase in pensions:	1.90%
Rate of discounting scheme liabilities:	2.35%

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.

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.

d) Valuation of long term debtors

We confirm that the valuations applied to long term debtors as at year-end, accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

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 Gerald Rice

Chair of the Audit Committee

[date]

AUDIT QUALITY

Contents

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 a 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 FRC'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

FOR MORE INFORMATION:

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