



THURROCK COUNCIL

Annual Audit Letter

Year ended 31 March 2020

IDEAS | PEOPLE | TRUST



EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we carried out in respect of the year ended 31 March 2020.

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

Responsibilities of auditors and the Council

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

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

- Our opinion on the financial statements
- Whether the Council have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

BDO LLP

23 February 2021

Audit conclusions

| Audit area | Conclusion |
|----------------------|---|
| Financial statements | Unqualified opinion, with an emphasis of matter in respect of the valuation of land and buildings and the valuation of pooled property assets within the pension fund, due to a material uncertainty included in the final valuation report by the valuers of these assets. Issued on 30 November 2020. |
| Use of resources | Unmodified conclusion issued on 30 November 2020. |

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

FINANCIAL STATEMENTS

Audit conclusion

We issued our audit report on 30 November 2020.

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

- Give a true and fair view of the financial position and income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting 2019/20.

Final materiality

Final materiality was calculated at £7,800,000 based on a benchmark of 1.75% of gross expenditure.

Material misstatements

We identified one material misstatement in the Council's draft accounts. This was a classification issue between long term and short term debtors and was corrected by management. Management also corrected for five individually immaterial misstatements.

Unadjusted audit differences

We identified audit adjustments, the net impact of which if posted, would decrease the net deficit on provision of services for the year by £5.091 million.

We reported these audit differences and the Governance and Audit Committee accepted management's decision not to amend the Statement of Accounts for these differences because the impact was not material.

FINANCIAL STATEMENTS

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

| Risk description | How the risk was addressed by our audit | Results |
|---|---|---|
| <p>Management override of controls Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls</p> | <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> 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 Reviewed unadjusted audit differences for indications of bias or deliberate misstatement | <p>We used our data analytics tools to inspect journals processed throughout the year and as part of the financial reporting close process for any unusual transactions.</p> <p>We identified a number of journal entries that we considered to be high risk. All were agreed to supporting documentation, with appropriate explanations obtained for all journals identified.</p> <p>We assessed and corroborated significant management estimates and judgements in the following key areas:</p> <ul style="list-style-type: none"> 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 <p>We found no evidence of management override or bias for these estimates.</p> <p>Our review of unadjusted audit differences did not identify any indications of bias or deliberate misstatement.</p> |

FINANCIAL STATEMENTS

| Risk description | How the risk was addressed by our audit | Results |
|---|--|--|
| <p>Revenue Recognition</p> <p>Auditing standards presume that income recognition presents a fraud risk.</p> <p>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.</p> | <p>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.</p> | <p>Our sample testing of revenue and capital grants confirmed that these were appropriately recognised when performance conditions attached to them had been satisfied.</p> <p>Our audit work did not identify any issues.</p> |
| <p>Expenditure cut off</p> <p>For public sector bodies the risk of fraud related to expenditure is also relevant.</p> <p>For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.</p> | <p>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.</p> | <p>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.</p> <p>Our audit work did not identify any issues.</p> |

FINANCIAL STATEMENTS

| Risk description | How the risk was addressed by our audit | Results |
|--|---|--|
| <p>Valuation of non-current assets</p> <p>The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.</p> | <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Reviewed the instructions provided to the valuer and reviewed the valuer’s skills and expertise in order to determine if we can rely on the management expert• Confirmed that the basis of valuation for assets valued in year 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• Confirmed that assets not specifically valued in the year had been assessed to ensure their reported values remained materially correct. | <p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we satisfied ourselves that we could rely on their work.</p> <p>We were satisfied that the valuation of the Council’s non current assets was completed appropriately and materially accurate.</p> <p>The valuer included a material uncertainty statement in their final valuation reports in respect of the year-end valuations, in light of circumstances surrounding coronavirus. We considered this to be fundamental to the reader of the accounts and included an Emphasis of Matter in our audit report to highlight this uncertainty.</p> |

FINANCIAL STATEMENTS

| Risk description | How the risk was addressed by our audit | Results |
|--|--|--|
| <p>Valuation of Pension Liability</p> <p>The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.</p> | <p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Agreed the disclosures to the information provided by the pension fund actuary • Reviewed the competence of the management expert (actuary) • Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data • Reviewed the controls in place for providing accurate membership data to the actuary • Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data • Checked that any significant changes in membership data have been communicated to the actuary. | <p>No issues were found in assessing the competency of managements' experts, or, in the agreement of disclosures to the information provided by the actuary.</p> <p>We compared the key financial and demographic assumptions used by the actuary, to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO. We considered that the assumptions and methodology used by the Pension Fund actuary were appropriate.</p> <p>We obtained assurance from the auditors of the Essex Pension fund over the controls in place for providing accurate membership data to the actuary and the testing of that data.</p> <p>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' in light of circumstances surrounding coronavirus. We included an Emphasis of Matter in our audit report to highlight this uncertainty.</p> |

USE OF RESOURCES

Audit conclusion

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

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

| Risk description | How the risk was addressed by our audit | Results |
|---|---|---|
| The Council will need to deliver its 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. | We carried out the following planned audit procedures: <ul style="list-style-type: none">Reviewed the assumptions used in the MTFs and assessed the reasonableness of the cost pressures and the amount of Government grant reductions appliedReviewed the monitoring of the delivery of the budgeted savingsReviewed the investment plans and the adequacy of those plansSampled a number of savings schemes and plans for detailed review. | <p>The Council achieved its savings target for the year, with some savings in the budget which were not achieved being offset by savings elsewhere. An updated medium term financial strategy to 2024/25 was approved by Cabinet in September 2020.</p> <p>The MTFs does not include any proposed savings for 2020/21, and savings will not be monitored in the short to medium term.</p> <p>Due to COVID-19 the Council has been affected with a loss of income as well as incurring additional expenditure - this has created a budget gap of £19.318 million for 2021/22. The impact for 2019/20 was considered relatively small as the effect was only felt at the end of March 2020.</p> <p>Without factoring in the changes arising due to COVID-19, while there was a recognised funding gap in the MTFs, we were satisfied that the Council had sufficient reserves available in the short to medium term and appropriate arrangements to manage the budget gap in a way that would ensure it remained financially sustainable over the period of the MTFs.</p> <p>At the time of issuing our opinion, the Council had not produced a plan for closing the budget gaps identified from the revised MTFs. However, our VFM conclusion is based on in-year arrangements and we concluded 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.</p> |

REPORTING AND FEES

Fees summary

| | 2019/20 | 2018/19 |
|---|--------------------|----------------|
| | £ | £ |
| Audit fee | 107,967 | 117,005 |
| Audit fee - PSAA scale fee | 102,967 | 102,967 |
| Proposed Amendment | 5,000 ¹ | 14,038 |
| Non-audit assurance services (Fees for reporting on Government grants) | TBC | 25,400 |
| Housing benefit subsidy claim | TBC ² | 14,900 |
| Pooling of Housing capital receipts return | 3,500 | 3,500 |
| Teachers' pension return | 7,000 | 7,000 |
| Total fees | TBC | 142,405 |

¹ The additional fee for 2019/20 has been agreed as recurring fees of £5,000 which relates to consolidation of the group companies into the Council's accounts - the fee for which was not included in the scale fee.

The fee variation will require approval from PSAA.

² Work is ongoing and so we are unable to conclude on the final fee until the work is complete.

Communication

| 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 |

FOR MORE INFORMATION:

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