

11 March 2021		ITEM: 5
Standards and Audit Committee		
External Audit Plan 2020/21		
Wards and communities affected: All	Key Decision: N/A	
Report of: Sean Clark, Corporate Director of Finance, Governance and Property		
Accountable Assistant Director: Jonathan Wilson, Assistant Director Finance		
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property		
This report is Public		

Executive Summary

This report introduces the External Audit Plan for 2020/21 which will be presented by BDO.

1. Recommendation(s)

1.1 That the report be noted.

2. Introduction and Background

2.1 This report introduces the Audit Plan that will cover the audit of the 2020/21 financial statements and the assessment of the council's arrangements to secure value for money through the economic, efficient and effective use of its resources.

2.2 The plan sets out the audit process and the auditors will report on their findings back to the Committee on completion of their work.

2.3 The plan sets out the key risks and the areas of audit focus.

2.4 The key financial statement risks identified are noted below along with steps taken by the Council to address them. The significant risks identified are audit risks which are largely common to all local authorities and are set out below:

- Management Override of Controls

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud. This is based on the potential to manipulate accounting records and

prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

There have been no identified instances of management override identified at the Council from previous audits and the system of internal control continues to operate effectively to mitigate this inherent risk.

- Revenue (and Expenditure) Recognition

There is risk in respect revenue and capital grants that are recognised in the financial statements before the relevant performance conditions have been met. Hence revenue could incorrectly be recognised in the comprehensive income and expenditure statement (CIES). There is also a risk of the manipulation of expenditure which can lead to recognition in the incorrect financial period.

There have been no concerns raised in this area from either internal or external assessments in prior periods. The Council remains satisfied the revenue recognition processes in place remain appropriate.

- Valuation of Property, Plant & Equipment (PPE)

There is an inherent risk over the valuation of land, buildings and dwellings as there is a high degree of estimation uncertainty, with valuations being based on incorrect assumptions or where updated valuations have not been provided for a class of assets at year-end.

There have been no significant issues noted in previous reviews by external audit and the Council continues to ensure assets are valued in accordance with the requirements of the Code of Practice.

- Pension Liability Valuation

There is a risk the valuation of the pension liability is not based on accurate membership or appropriate assumptions, involving a degree of estimation uncertainty and hence there is an inherent risk of material misstatement.

The Council continues to liaise with Essex Pension Fund to ensure all data inputs into the valuation process are complete and accurate. This risk applies to all members of the Essex Pension Fund.

- Financial Instruments Valuation

There is a risk the valuation of financial instruments is not based on accurate input data or appropriate assumptions involving a degree of estimation uncertainty and hence there is an inherent risk of material misstatement.

The Council continues to liaise with Fund Managers to ensure all data inputs into the valuation process are complete and accurate and assumptions are reasonable.

- 2.5 Following the introduction of the new Code of Audit Practice there will be changes to the way that auditor's perform their Use of Resources work and reporting of their findings. The key output from local audit work in respect of value for money arrangements is a commentary as reported in the Auditor's Annual Report as opposed to the VFM conclusion' in place previously. This change is moving away from solely focusing on 'significant risks' to risks focusing on actual arrangements and a wider scope so that any developing issues can be addressed on a timely basis. However, audit are not yet in a position to report risks of significant weaknesses under the new code requirements and will issue an updated planning report once their risk assessment has been completed.
- 2.6 The proposed audit fees are set out in Appendix A. The planned fee for the main audit and VFM conclusion is £107,967. This is consistent with the base audit fee for 2019/20. Audit will be proposing a fee variation for the significant increase in use of resources work under the new code, once the additional procedures have been scoped.

3. Issues, Options and Analysis of Options

- 3.1 The report is only for nothing as it is the report of the external auditors.

4. Reasons for Recommendation

- 4.1 To make the Committee aware of the external audit programme of work and the associated fees.

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

- 5.1 There has been an ongoing dialogue between officers and the external auditors and the plan has been reviewed in detail.

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

- 6.1 Robust financial processes safeguard the Council's assets that support the Council in delivering its policies and priorities

7. Implications

7.1 Financial

Implications verified by: **Jonathan Wilson**
Assistant Director, Finance

These are included in the body of the report.

7.2 **Legal**

Implications verified by: **Tim Hallam**
Deputy Head of Law and Deputy Monitoring Officer

There are no specific implications from this report.

7.3 **Diversity and Equality**

Implications verified by: **Natalie Smith**
Strategic Lead - Community Development

There are no specific implications from this report.

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

There are no specific implications from the report

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

- None

9. **Appendices to the report**

- Appendix 1 – BDO Audit Planning Report for Thurrock Council 2020/21

Report Author:

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Finance