



THURROCK COUNCIL

31 March 2021 - Audit update and
timeline

9 September 2024

EXECUTIVE SUMMARY

REPORT PURPOSE

This report provides the Audit Committee with an update on the progress of our audit and plans to clear the backlog of remaining work.

We have focused this executive summary (with details on subsequent pages) on the following areas:

- ▶ Progress in completing the 2020/21 audit, and matters to resolve to enable us to conclude
- ▶ Update on backstop arrangements
- ▶ Value for Money arrangements update
- ▶ Timeline implications of the above



AUDIT PROGRESS

2020/21

- With the exception of investments, fieldwork is well progressed with testing now undergoing senior review
- Points arising from review are being followed up with the Council
- Risk assessment remains iterative and our approach may continue to evolve to reflect further developments
- Revised primary statements have been received
- Anticipated qualification in relation to investments balances categorisation and valuation

2021/22 and 2022/23

- Expectation that legislation supporting 'backstop' arrangements will be in place by late autumn
- Across local government, expectation that audits are either completed as normal or disclaimed by 13 December 2024
- We plan to disclaim Thurrock 2021/22 and 2022/23; this reflects the fact that there will not be time to obtain sufficient appropriate audit evidence before the backstop date, and as a result we will not be able to determine whether the financial statements present a true and fair view
- Some scoping and planning work will have to take place, VFM work however still required
- Requirement for public inspection period
- Some exemptions to backstop date expected, including where material objections present



OTHER MATTERS

VFM update

Our work on the Council's VFM arrangements remains in progress for all three open years. A significant weakness in arrangements has previously been reported (September 2023) in connection with the 2021/22 and 2022/23 Chief Internal Auditor's opinion for each year, relating to the delay in the opinion and the absence of an opinion respectively.

Objection

We are in the process of responding to an objection raised on the 2020/21 accounts by a member of the public. Work on this will need to be concluded before the 2020/21 or subsequent audits can be signed.

Timeline

A timeline has been included in this report, with the aim of having completed the 2020/21 audit and the subsequent years' disclaimers by the backstop date.

There remain matters which pose a challenge for the completion of the 2020/21 audit, in particular finalisation of investments assurance procedures and the presence of an objection on the accounts.

The delivery of the 2021/22 and 2022/23 timetable will be subject to the Council publishing draft financial statements and determining an inspection period and the passage through Parliament of secondary legislation linked to the backstop arrangements.

As reported in our timeline, we anticipate the need for an extraordinary Audit Committee in late November or early December to fulfil our reporting responsibilities.

2020/21 AUDIT - SUMMARY

Audit progress

The Council have provided updated primary financial statements setting out the impact of proposed adjustments (including for the prior period) to intangible assets, heritage assets and investments. These are currently being reviewed by BDO.

Testing on the remainder of the audit is well progressed with the majority of testing areas now undergoing stages of senior review, with substantive testing being finalised on a number of areas and points arising from review in the process of being addressed. However, we anticipate continued significant input both from the Council and the audit team, including specialists, in connection with concluding procedures on investments. There have been some recent changes to the senior finance team at the Council. BDO is meeting with the finance team on a weekly basis to resolve the remaining issues on the audit, including investments.

As the Audit Committee will be aware, an objection on the financial statements was received from local elector. Work on this objection will need to be concluded prior to being able to issue an opinion. This work is currently in progress, and is likely to have a significant resource and potential timetable implications for the Council and auditor. More generally, due to the complexity of elements of this audit, there remains an 'iterative' element to our risk assessment as work gets completed and reviewed, which may give rise to further procedures than those already planned. A timetable to completion for the audit as a whole has been included on page 6.

Investments

As part of progressing our work on investments, we have identified potential information gaps that may limit the quantity and reliability of evidence available to draw conclusions on the valuation and classification of certain investments.

While this varies between different investments, issues encountered to date include:

- Limited information retained at the time investments originally made
- Limited subsequent information available from other parties

In this context, the Council have proposed a valuation methodology for each investment, which we are reviewing. As part of this, the Council are proposing that the sales proceeds for the Solar Farms, the largest asset, shall be used as a proxy for its valuation as at the three balance sheet dates under consideration (31st March 2019, 2020, 2021). This is likely to result in a valuation in the accounts that cannot be determined to be materially correct. It is therefore anticipated that a form of qualification is likely to be needed given the potential difference between the sales proceeds and the actual fair value as at these dates.

For other investments, there remains a risk that the Council are not able to provide sufficient and appropriate evidence to support the valuation or classification, to an extent that allows for a conclusion to be made. The nature of any qualification in respect of the above will depend on a number of factors, including the materiality and pervasiveness of the issues identified, and the extent of any information deficits.

2021/22 AND 2022/23 - BACKSTOP ARRANGEMENTS

Context

A ministerial statement published on 30th July 2024 confirmed the intention to proceed with amendments to the Accounts and Audit Regulations (2015) and the laying of a new Code of Audit Practice. Combined, these would introduce arrangements whereby audits that are not complete by the proposed backstop date (13 December 2024) are subject to a 'disclaimer' of opinion.

The proposed legislation will outline some scenarios where bodies may be exempt from this, including where a material objection has not been concluded on; in these situations the audited body would still be required to publish an explanation of their exemption at the time of the backstop date.

Both were laid in Parliament on 9 September and, subject to Parliament's approval, are expected to become effective in late autumn.

Our plan, which has been discussed with the Finance team, is to disclaim our opinions on the 2021/22 and 2022/23 audits in line with the proposed backstop arrangements. While some specific audit work will be required to get to this position, the scope of this is significantly less than a full audit, focusing on elements of audit scoping and planning with comparatively little direct input expected from Council officers and no substantive audit testing. As a result, the scope of the proposed disclaimer will effectively cover the whole accounts.

Inspection periods

The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 require local authorities to set and publish a period of inspection (30 consecutive working days) in connection with the accounts.

As reported in the s151 Officer's update to this Committee in July 2024, the inspection period for the 2021/22 and 2022/23 accounts has not yet started and a period has not yet been set. The requirement for accounts to have gone through an inspection period is not altered by the proposed backstop secondary legislation, even if there is an expectation that the auditor's opinion on these accounts will be disclaimed.

Noting the fact that the 2020/21 financial statements are not yet finalised and the presence of a material objection on the 2020/21 accounts, the Council will need to determine an approach as to how the inspection periods for these future years are anticipated in their forward planning. The Council have agreed to discuss this with the Monitoring Officer.

A timetable to completion has been included on page 6.

The ministerial statement can be found at the following url:
<https://questions-statements.parliament.uk/written-statements/detail/2024-07-30/hcws46>

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VALUE FOR MONEY ARRANGEMENTS

Context

Anticipated changes to the Code of Audit Practice (see Backstop Arrangements above) include a reduction in the scope for certain years' VFM work, once the revised Code comes into effect. The aim of these scope limitations is to focus the auditor testing and reporting on Financial Sustainability and Governance considerations that are most likely to give rise to a significant weakness.

In the case of Thurrock, this reduced scope applies to all three years 2020/21, 2021/22 and 2022/23. Note that even in situations where an opinion is disclaimed there is a requirement under the Local Audit and Accountability Act 2014 for VFM work to be concluded prior to issuing an opinion.

Our work against all three years' VFM is in progress. The proposed output of this VFM work will be a commentary on arrangements, and reporting of any significant weaknesses identified as part of this work. This commentary may cover more than one year, although the identification and reporting of significant weaknesses in arrangements is assessed on a year by year basis.

Note that the objection received on the 2020/21 financial statements will impact our VFM conclusion, and therefore we will not be in a position to conclude VFM reporting until after the objection is concluded.

Findings

The reduction in scope does not reduce the onus on the auditor to report other matters that come to their attention, where these do not form part of the reduced scope. Therefore, matters previously reported as having a potential significance from a VFM perspective (such as the Best Value Inspection) or where weaknesses have already been reported remain relevant. Findings arising during the audit of the financial statements may also be relevant from a VFM perspective.

At present, beyond matters reported in September 2023 (see below) we have no further preliminary conclusions to report. However, mirroring the findings reported in the Best Value Inspection, we do expect to report findings in relation to Governance and Financial Sustainability along similar lines.

VFM significant weaknesses already reported

For 2021/22 VFM reporting obligations, we have already reported a significant weakness in arrangements in relation to the delay in the Chief Internal Auditor's opinion for that year.

For 2022/23 VFM reporting obligations, we have already reported a significant weakness in arrangements in relation to absence of a Chief Internal Auditor's opinion for that year.

Both are considered significant weaknesses in governance arrangements. For more detail please see **Appendix - VFM findings**

BDO AUDIT TIMETABLE

SEPTEMBER 2024

- ▶ Completion of remaining fieldwork, senior manager and Key Audit Partner review
- ▶ Receipt of full revised Statement of Accounts, Narrative Report Annual Government Statement
- ▶ Engagement with financial statements (FRA) technical review, including over proposed prior period adjustments
- ▶ Engagement with IFRS 9 specialist over investment classification conclusions
- ▶ Inflight quality review
- ▶ Resume work on objection
- ▶ Establishing timeline with Finance team for 2021/22 and 2022/23 disclaimer work, including inspection periods

OCTOBER 2024

- ▶ BDO present Audit Committee report (3rd October)
- ▶ Start work in respect of 2021/22 and 2022/23 disclaimer
- ▶ Finalise 2020/21 fieldwork
- ▶ Response to points arising from senior manager, Key Audit Partner review and FRA technical review
- ▶ Engagement with renewables energy partner
- ▶ Engagement with valuations specialist

BDO AUDIT TIMETABLE

NOVEMBER 2024

- ▶ Draft Audit Completion Report to be circulated with management
- ▶ Finalise audit procedures (for 2020/21)
- ▶ Finalisation of internal quality review processes
- ▶ Reconsider any new information that has arisen between revised risk assessment and this date
- ▶ Internal consultation on the wording of any proposed modified opinion for 2020/21
- ▶ Subsequent events update
- ▶ Meet with officers/commissioners to discuss draft reporting

DECEMBER 2024

- ▶ Presentation of BDO Audit Completion Report for 2020/21, VFM report, conclusions on disclaimed audits
- ▶ Sign off (subject to concluding on the objection)

Note that our plans for 2021/22 and 2022/23 remain draft and could be subject to change.

INFORMATION REQUIRED FOR AUDIT

The delivery of the timetable will be subject to many factors including the continued timely receipt of supporting evidence for the remaining areas of testing, the timeliness and quality of information provided by management, and continued positive engagement with the Council's finance team over investments, financial statements and complex areas in progress.

In particular, the timetable is sensitive to the following areas

- Concluding on the objection (2020/21)
- Passage of secondary legislation in support of proposed backstop arrangements
- The timing and outcome of inspection periods for 2021/22 and 2022/23
- Any matters arising from these inspections
- The scope of our audit work not changing significantly for any of the years in question, whether as a result of audit findings or other external factors



SPECIALIST INVOLVEMENT

Specialist involvement/support proposed

IFRS 9 SPECIALIST

Review the categorisation of IFRS 9 investments proposed by the Council against standard using source documentation to support the review

RENEWABLES ENERGY PARTNER

To support any sector specific considerations that need to be reviewed/challenged as part of the audit procedures

VALUATIONS (SPECIALISING IN RENEWABLES)

Review and challenge the information provided by the Council's experts in relation to valuation and impairment of investment balances

FORENSICS

Analysing relevant information to respond to objection received.

Potential to support any further procedures required as a result of any issues raised regarding Governance in the Best Value Inspection report.



ENSURING QUALITY

Quality review processes

TECHNICAL REVIEW

Conducted by a member of our Financial Reporting Advisory (FRA). They will review the quality and compliance of the Annual Report and financial statements with relevant accounting standards and legislation

IFRS 9 SPECIALIST

Review the financial statements to ensure reporting in line with expected categorisation and valuation of investments

INFLIGHT QUALITY REVIEW

Detailed review of key aspects of the audit strategy and subsequent execution

QUALITY DIRECTOR CONSULTATION

Experienced Public Sector Director to challenge audit judgements and documentation to secure audit quality

RISK AND ETHICS

Involvement of the risk and ethics team throughout the engagement to ensure we are effectively managing and responding to issues as they are arising

SENIOR PARTNER

Head of Quality and Risk and additional senior partners to ensure management of risk and quality outcomes required by BDO, including (but not limited to) conclusions on VFM, infrastructure, going concern and investments.



APPENDIX - VFM FINDINGS

Year end 31 March 2022 (reported September 2023)

The Chief Internal Auditor's Annual Report - Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022) was presented to the Standards & Audit Committee on 19 July 2023.

The Chief Internal Auditor provided a 'No Assurance' opinion for 2021/22 for governance, risk management and internal control as a result of the BVI report. The Chief Internal Auditor's opinion for 31st March 2022 was not issued until July 2023, therefore one year after the opinion would typically be issued. This reduces the effectiveness of the internal audit opinion, due to the reduction in timeliness of the information. There was no possibility for the Council or Those Charged With Governance (TCWG) to use the opinions and recommendations in the 2021/22 opinion to implement meaningful improvements in their arrangements for governance, risk management and internal for the 2022/23 financial year.

The delay in the Chief Internal Auditor's opinion for 2021/22 therefore constitutes a *significant deficiency* under ISA (UK) 265 as there has been no timely opportunity to consider this monitoring of controls.

Similarly, AGN03 defines a significant weakness as one which 'leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service', or 'identifies a failure to take action to address a previously identified significant weakness'. The delay in the 2021/22 internal audit opinion had the potential to lead to a significant impact on the quality or effectiveness of service delivery, as the Council could not remedy the findings for 2022/23, and the same impact is a result of the issue of a 'failure to take action to address a previously identified significant weakness'.

Therefore, the delay in the opinion constitutes a *significant weakness in Governance arrangements* in accordance with AGN03.

Recommendation: Ensure sufficient Internal Audit work is timetabled to provide assurance of monitoring of internal controls to TCWG.



APPENDIX - VFM FINDINGS

Year end 31 March 2023 (reported September 2023)

The Chief Internal Auditor's Annual Report - Year ended 31st March 2023 (including summarised report for Year ended 31st March 2022) was presented to the Standards & Audit Committee on 19 July 2023.

For 2022/23 financial year the Chief Internal Auditor was unable to provide any opinion on governance, risk management and internal control due to resourcing issues within the Internal Audit department.

With regards to ISA (UK) 265, internal audit assurance is seen as a key process in monitoring the effectiveness of an entity's governance, risk management and internal control. In the absence of an internal audit opinion on these factors of the control environment, there is no independent assurance over the effectiveness of monitoring of these controls.

This is therefore a **significant deficiency** in internal controls for 2022/23 year end.

With regards to AGN03, paragraph 17 states that in local government, organisations are required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through annual governance statements. The absence of an internal audit opinion on these arrangements therefore results in an absence of independence monitoring and assurance, which is a significant control deficiency.

The absence of an internal audit opinion on governance, risk management and internal controls, certainly may expose the body to financial risk, the quality or effectiveness of services, may lead to unlawful actions, and may lead to a failure to take action on previously identified significant weaknesses. The 2021/22 internal audit opinion gave a 'No assurance' opinion on all three areas, and the lack of any opinion for 2022/23 removes the ability for independent assurance or monitoring.

The absence of an internal audit opinion for 2022/23 results in a **significant weakness in Governance arrangements** in accordance with AGN03.

Recommendation: Ensure sufficient Internal Audit programme is timetabled to provide assurance of monitoring of internal controls to TCWG and compliance with Public Sector Internal Audit standards.



FOR MORE INFORMATION:

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