

Thurrock Unitary Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

16 September 2014



Debbie Hanson, Director
dhanson@uk.ey.com

Christine Connolly, Senior Manager
cconnolly@uk.ey.com

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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Standards and Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As at 2 September 2014, subject to the completion of the outstanding work detailed on page 6, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate after we have completed our work on Whole of Government Accounts, which may be after we have issued the audit opinion.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>Localisation of business rates</p> <p>There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<p>We reviewed</p> <ul style="list-style-type: none"> the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice. the Councils provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37. As part of this we ensured the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts. 	<ul style="list-style-type: none"> Our audit work confirmed that the accounting treatment adopted by the Council for business rates was appropriate and in compliance with the CIPFA Code of Practice. Our work on the provision is still in progress, but on the basis of the work completed to date, we expect to conclude that the provision has been calculated on a reasonable basis in line with the requirements of IAS 37.
<p>Financial statement closedown procedures</p> <p>In previous years, material errors have arisen in the financial statements in a number of key areas:</p> <ul style="list-style-type: none"> ▶ grant revenue recognition; ▶ accounting for schools income and expenditure; and ▶ asset valuations. 	<p>We focussed on:</p> <ul style="list-style-type: none"> management's arrangements to address the issues identified in prior years detailed testing of relevant balances to ensure they are correctly stated 	<ul style="list-style-type: none"> The majority of work has been completed in these areas and no significant issues were identified. There has been an improvement on previous years on financial statement closedown procedures.
<p>Management override</p> <p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; Reviewed accounting estimates for evidence of management bias; Evaluated the business rationale for any significant unusual transactions; and We reviewed capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised. 	<ul style="list-style-type: none"> We did not identify any material instances of fraud or error.

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed as at 2 September. We will provide an update of progress at the Standards and Audit Committee meeting:
 - ▶ Investments and borrowings (outstanding bank confirmations)
 - ▶ NNDR appeals provision
 - ▶ Payroll and housing rents control account reconciliations
 - ▶ Analytical review queries for housing benefits and NNDR income
 - ▶ Sample testing of expenditure
 - ▶ Collection fund
 - ▶ Reserves
 - ▶ Amounts reported for resource allocation decisions note
 - ▶ Cashflow statement
 - ▶ Whole of government accounts
 - ▶ Receipt of a Letter of Representation
 - ▶ Director final review of audit work and financial statements
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- We have identified two misstatements within the draft financial statements, which management has chosen not to adjust. Appendix 1 to this report sets out the uncorrected misstatements.

- We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Standards and Audit Committee and provided within the Letter or Representation

Corrected misstatements

Our audit identified a limited number of errors which the audit team have highlighted to management for amendment. All of these have been corrected during the course of our work. The number and nature of errors identified is a significant improvement on previous years. We do not consider any of the errors identified to be significant and therefore have not provided further details of these corrected misstatements.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

We have no matters we wish to report.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

There were no additional specific representations required other than the standard representations

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently undertaking our work in this area and will report any matters that arise to the Audit Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Thurrock Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have completed our work in this area and plan to issue an unqualified value for money conclusion in relation to the Council's financial resilience. We do have some issues to report to those charged with Governance, as set out on the next page

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have completed our work in this area and we have no issues to report in relation to this criteria.

Arrangements to secure economy, efficiency and effectiveness

Financial resilience

Along with many other Council's, Thurrock is facing significant financial challenges over the next three to four years.

The Council's external funding sources are reducing and are subject to change and uncertainty in future years. Some of the main areas of uncertainty relate to:

- ▶ Levels of business rates income
- ▶ Level of funding through the New Homes Bonus (NHB)
- ▶ Level of Government funding through the Revenue Support Grant (RSG) and Baseline Funding (business rates)

The Council is clearly aware of the challenges it faces and has continued to develop and refine its Medium Term Financial Strategy (MTFS) over the last year.

A cumulative budget gap of around £37.7 million has been identified over the next 4 years to 2017-18 which will need to be bridged through savings and efficiencies or increased income.

The Council has already identified plans to bridge over £32 million of this gap, and good progress has been made on bridging the opening budget gap of £21.8 million in 2015-16, with savings identified and agreed to address the majority of this deficit.

The Council's financial forecasts that have been reported to Members make clear the scale of the challenge being faced and the Council's duty to set a balanced budget. These reports identify a number of risks and uncertainties. Some of the specific issues we would note include:

- ▶ The Council has included NHB of around £1.5 million in 2014-15, increasing to £2.4 million in 2017-18, to support the base budget. Officers recognise the risk associated with this approach as the amounts the Council will receive have not been confirmed beyond 2015-16. Any significant reductions in the NHB, or other funding streams, would result in an additional budget gap for the Council to address.
 - ▶ In recent years, the Council has frozen its council tax and received council tax freeze grant. The Council's MTFS includes an estimated council tax increase of 1.99% from 2015-16 to 2017-18. If this increase is not agreed, the Council will need to find additional ongoing savings on top of those already identified.
 - ▶ Additional pressures relating to providing for business rates appeals are also affecting the Council's overall financial position.
- Members have demonstrated that they understand the scale of the challenge the Council faces and have already approved a number of the savings plans presented to them. The scale of the challenge however remains significant and Members will need to continue to make some difficult and challenging decisions. In particular, Members need to consider carefully the impact of any decisions relating to council tax levels or use reserves to support the Council's finances, on the ongoing sustainability of the Council's financial position and its ability to maintain service levels in future years.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated February 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Standards and Audit Committee on 16 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of February 2014.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14
	£s	£s
Total audit fee - Code work	177,277	177,277
Certification of claims and returns*	21,367	26,600
Non-audit work	0	0

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ Our grants fee has reduced to reflect the removal of council tax Benefit from the housing benefit subsidy claim
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix 1 - Uncorrected audit misstatements

The following misstatements, which are greater than £0.35 million have been identified during the course of our audit.

These items have not been corrected by management.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J J	Debit/(Credit)	Debit/(Credit)
PPE Revaluation Reserve CIES - various service headings	Valuation information on Development Corporation assets received after production of the accounts showed an overall increase in value of £3.2 million .	F, P, J J	£3.2 million (£0.9 million)	(£2.3 million)
Penions Reserve Pensions Liability CIES - net defined benefit liability MiRS	Adjustment to the carrying amount of the Pension Reserve and Pension Liability accounts as a consequence of a revision to the IAS 19 statement provided by the Pension Fund administrator after the accounts had been prepared.	J	£1.231 million (£1.231 million)	£1.231 million (£1.231 million)
Cumulative effect of uncorrected misstatement			£2.3 million	(£2.3 million)

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

