



TENDRING DISTRICT COUNCIL

Annual Audit Letter

Year ended 31 March 2020

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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 Council's financial statements; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

BDO LLP

January 2021

Audit conclusions

Audit area	Conclusion
Financial statements	Unqualified opinion, with an emphasis of matter in respect of the valuation of land and buildings (including investment properties) and Pension Fund assets, due to a material uncertainty included in the final valuation reports. Issued on 1 December 2020.
Use of resources	Unmodified conclusion issued on 1 December 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 1 December 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 Authority Accounting 2019/20.

Final materiality

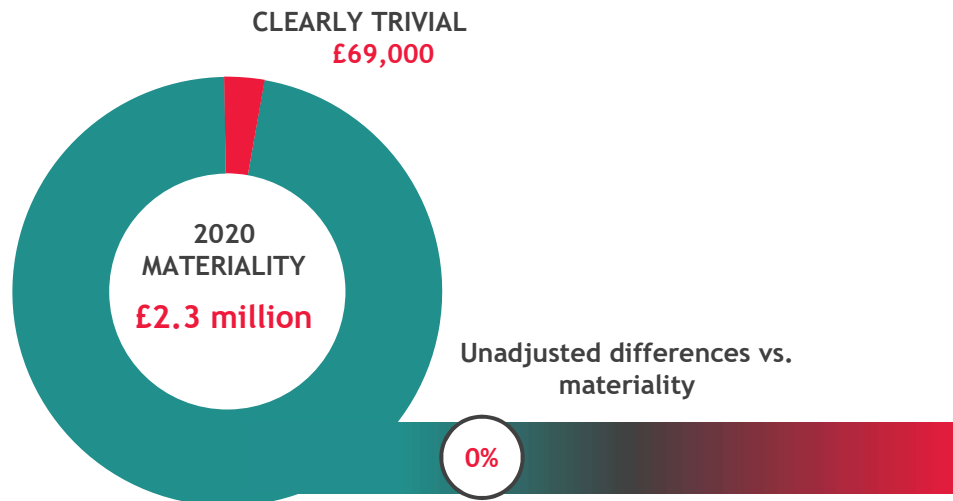
Materiality was calculated at £2.3 million based on a benchmark of 2% of gross expenditure.

Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We did not identify any audit differences that have not been adjusted for.



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</p> <p>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"> We 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; Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual; and Reviewed unadjusted audit differences for indications of bias or deliberate misstatement. 	<p>We did not identify any evidence of systematic bias or management override in the processing of journals entries and other adjustments.</p> <p>Material accounting estimates with a higher degree of estimation uncertainty for the Council included valuation of properties and pension assets and liabilities. Our audit work on these accounting estimates is set out in the following pages. The audit work performed provided reasonable assurance that the accounting estimates are reasonable and free from management bias.</p> <p>We did not identify any unusual transactions or transactions that were outside the normal course of business for the Council.</p> <p>We did not identify any management bias or deliberate misstatements.</p>
<p>Expenditure Recognition</p> <p>For public sector bodies the risk of fraud related to expenditure is relevant.</p>	<p>We checked that expenditure had been recognised in the correct accounting period by substantively testing an increased sample of expenditure items around year-end.</p>	<p>Our testing on expenditure cut off did not identify any missing or incorrectly treated expenditure.</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 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 is appropriate based on their usage; • Reviewed the accuracy and completeness of information provided to the valuer, such as rental agreements and floor area sizes; • Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets; and • Followed up on valuation movements that appeared unusual. 	<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>Our review of the basis of the valuation for each asset and the input data that informed the valuation, did not identify any material errors.</p> <p>We were content with the assumptions used by the valuer and our review of relevant indices for similar asset classes did not identify any material inconsistencies.</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 included an Emphasis of Matter in our audit report to highlight this uncertainty. This has also been referred to on page 6 below in relation to our work on the valuation of the Pension liability.</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"> 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 obtained assurance from the auditor of the pension fund over the reasonableness of the valuation of pension fund assets at 31 March 2020, Checked that any significant changes in membership data have been communicated to the actuary; and Agreed the disclosures to the information provided by the pension fund actuary. 	<p>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.</p> <p>We reviewed the assumptions used and considered them to be reasonable.</p> <p>The pension fund auditor, on our behalf, has reviewed controls and procedures at Essex Pension Fund and confirmed that their review did not identify any issues.</p> <p>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. This audit work has not identified any issues.</p> <p>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.</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’ due to Covid-19. We requested management include additional disclosures regarding this matter. We included an Emphasis of Matter paragraph within our audit opinion to refer to this.</p> <p>We have not identified any significant changes in membership data during the year.</p> <p>We agreed disclosures in Note 29 to the financial statements to the information provided by the actuary and have not identified any issues.</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 they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Risk description	How the risk was addressed by our audit	Results
Sustainable finances In light of the large underspends and significant amount of accumulated reserves, there is a risk that the budget setting and financial management process of the Council may not be designed to achieve the best use of the Council's resources.	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">Reviewed the adequacy of the budget setting and financial management processes of the Council;Assessed the effectiveness of the Council's policies and procedures for periodically reviewing existing reserves to evaluate the appropriateness of the levels of individual reserves based on factors such as historic utilisation rates, associated risk / sensitivity analysis and their underlying purpose;Reviewed the financial outturn for 2019/20 and progress against the 2020/21 budget, for assessing the effectiveness of financial management arrangements, with the main focus being on any large underspends and carry forwards; andReviewed the strategies to utilise budget surpluses after 2023/24 and assess how these are deployed for better delivery of Council services.	<p>Our review of the Council's budget setting and financial management process concluded that they are adequate.</p> <p>As per the General Fund revenue financial performance for 2019/20, there was a underspend of £10.770 million within the net cost of service budget of £26.348 million. This indicates potential issues with deliverability of planned projects such that a critical review of those projects should be undertaken to determine whether reserves will be utilised in the short term or should be released.</p> <p>The Council's overall outturn position for 2019/20 was a surplus of £11,038k. This is because a number of projects planned for 2019/20, with a total value of £9,518k, were carried forward to future years.</p> <p>We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets and forecasts. While there is a recognised funding gap in the long term plan, we are satisfied that the Council is making appropriate arrangements to manage this in a way that will ensure it continues to remain financially sustainable. Conversely, our review identified areas where the Council may be taking an overly cautious approach to managing its finances, which may adversely impact council tax payers. In addition a number of planned projects, for which reserves are being held, have been deferred and their continued viability is being reviewed. We made recommendations in respect of these issues.</p>

REPORTS ISSUED AND FEES

Fees summary

	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee: financial statements and use of resources	⁽³⁾ TBC	45,205	45,205
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	⁽²⁾ TBC	⁽¹⁾ 11,250	11,400
• Pooling of housing capital receipts return	⁽²⁾ TBC	2,650	2,500
Total fees	TBC	59,105	59,105

- (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. The prior year fee includes a fee variation in respect of additional five 40+ detailed testing workbooks.
- (2) Work on 2019/20 housing benefit subsidy claim and pooling of housing capital receipts return has not yet been completed.
- (3) An additional fee for 2019/20 will be agreed with management at a meeting later this year.

Communication	Date (to be) communicated	To whom
Audit Planning Report	26 March 2020	Audit Committee
Audit progress report	At Audit Committee meetings	Audit Committee
Audit completion report	30 November 2020	Audit Committee
Annual Audit Letter	28 January 2021	Audit Committee



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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