Report to the Audit Committee

TENDRING DISTRICT COUNCIL

Audit Completion Report: year ended 31 March 2020

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WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

Lisa Clampin, Partner

For and on behalf of BDO LLP, Appointed Auditor

19 November 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2020.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements and use of resources for the year ended 31 March 2020 in line with the agreed timetable.

Outstanding matters are listed on page 40 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unqualified audit opinion on the financial statements and use of resources.

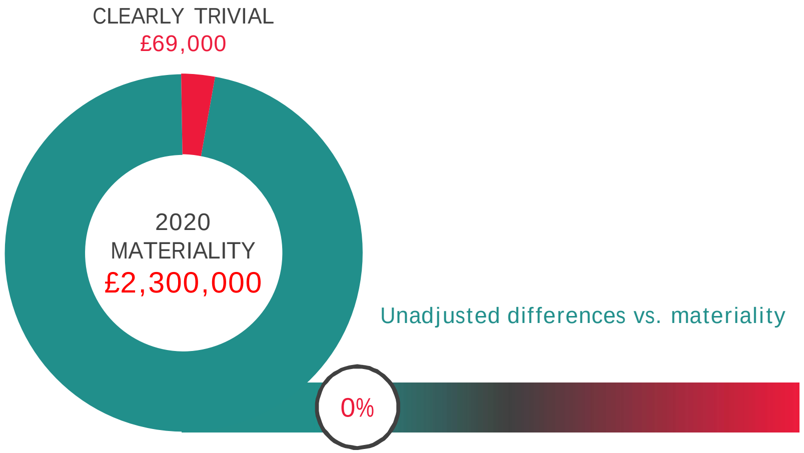
The updated financial statements include disclosures about a material valuation uncertainty in respect of ‘Other land and buildings’ within Property, Plant and Equipment, and ‘Property’ assets within the Local Government Pension Scheme Assets, due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

We have no exceptions to report in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Final materiality

Final materiality was determined based on gross expenditure.

There were no changes to final materiality and triviality from that reported in our Audit Planning Report.



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 reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- The Council is below the audit threshold of £500 million for a full assurance review of the Whole of Government Accounts Data Collection Tool (DCT).

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council’s (FRC's) Ethical Standard.

CORONAVIRUS

The effects on year-end reporting and auditing

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of Local Government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this corporate guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, directors are required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging from directors, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern directors are required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the directors consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the directors' assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of directors' assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

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CORONAVIRUS 2

The effects on year-end reporting and auditing

Financial reporting implications

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Council has received £89k grant to fund relevant expenses in 2019/20 and we have not performed any detailed audit procedures on this amount as it was not material.

Valuations of financial and non-financial assets and liabilities:

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data. The Council's external property valuer has reported the valuation on the basis of material valuation uncertainty (further details on this are set out on page 14-15). As set out on page 17, a similar material uncertainty disclosure has been included for property assets within the gross pension assets.

Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations. The Council has included a non-adjusting subsequent event in respect of the potential impact of Covid-19 in the updated accounts.

Leases:

IFRS 16 Leases will be effective from 1 April 2021 (a further one year deferral).

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus. The Council has included sufficient disclosures within the Annual Governance Statement concerning the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Cornavirus pandemic. This guide aims to help audit committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

CORONAVIRUS 3

The effects on year-end reporting and auditing

Implications for auditors

Risk assessment:

- The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations. In summary there may be a heightened risk of misstatement for:
  - The valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
  - The valuation and disclosure of financial obligations and any lending covenants
  - Going concern and/or working capital assessment and disclosure
  - Risk disclosures
  - Subsequent event disclosures
  - As noted above, entities need to consider their reporting of principal risks and uncertainties and we then need to consider this detail as part of our 'review and consider' of the Narrative Report and Annual Governance Statement, in particular where we believe there are risks missing from the detail.

  As noted in the previous page the Council has disclosed sufficient disclosures within the Annual Governance Statement and in the Narrative Report concerning the impact of Coronavirus. Financial statements reflect expected disclosures around the material valuation uncertainty in respect of property valuation, and disclosure of subsequent events.

Sufficient and appropriate audit evidence:

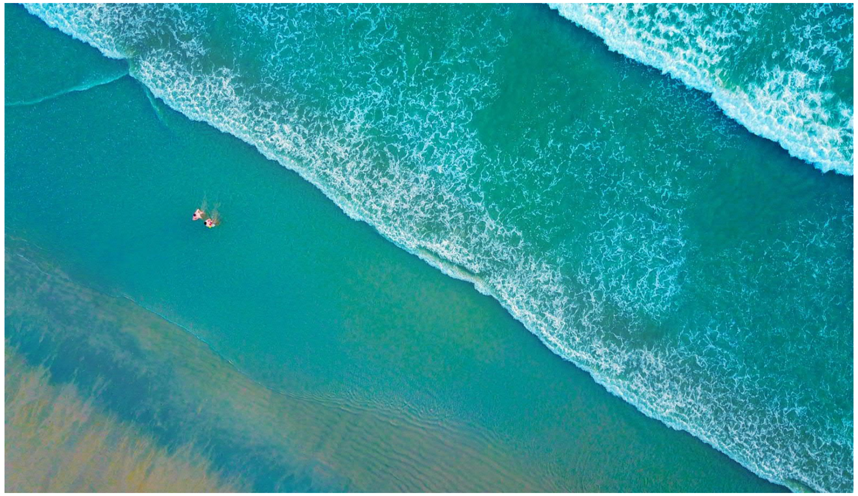
- Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:
  - Consider the impact on the audited entity
  - Consider alternative ways of working including the use of our technology tools
  - Consider implications for the quality of audit evidence and reporting.
- In undertaking audit work on the valuation of property, particularly specialised property valued using the Depreciated Replacement Cost method and Modern Equivalent Assets assumptions (including alternative site models), auditors are able to draw upon relevant information and indices collated, assessed and reported on by a firm of valuers, Gerald Eve, as commissioned on behalf of local public auditors by the NAO.
- Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the Council's financial statements and may be referred to by the auditor in their opinion/report.

OUR METHODOLOGY

Summary

We obtain our audit evidence primarily through substantive testing

As part of our risk assessment procedures we documented the systems and controls in place insofar as they are relevant to the preparation of the financial statements. Given the control activities we identified and the nature of activities, we determined that substantive testing to directly verify items in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet would be the most effective approach for our audit. The only exception to this is housing benefit expenditure for which part of the assurance is obtained from the controls testing. This is consistent with the approach we took in the prior year.



AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 16 March 2020, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Expenditure recognition	Significant	No	No	No	No	No
Valuation of non-current assets	Significant	Yes	Yes	Work in progress	No	Yes
Valuation of pension assets and liabilities	Significant	Yes	Yes	No	No	Yes

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- 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.

Results and conclusions

From the work completed we have not identified any evidence of systematic bias or management override in the processing of journals entries and other adjustments.

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 are set out in the following pages. The audit work performed provided reasonable assurance that the accounting estimates are reasonable and free from management bias.

We have not identified any unusual transactions or transactions that are outside the normal course of business for the Council.

We have not identified any management bias or deliberate misstatements by reviewing the unadjusted audit differences.

EXPENDITURE RECOGNITION

For public sector bodies the risk of fraud related to expenditure is relevant.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Work performed

We checked that expenditure is recognised in the correct accounting period by substantively testing the treatment of a sample of expenditure around year-end.

Results and conclusions

Our testing on expenditure cut off did not identify any missing or incorrectly treated expenditure.

VALUATION OF NON-CURRENT ASSETS

The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant control findings to be reported	
Letter of representation point	■

Risk description

Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different to the current value (operational assets) or fair value (investment properties) at the balance sheet date.

The Council applies an annual revaluation process under which the assets that had significant change in value during the year are subject to full revaluation and all other assets are revalued on a desktop basis. All assets are subject to full revaluation at least every 5 years.

Due to the significant value of the Council's land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions.

Work performed

We carried out the following planned audit procedures:

- 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;
- Checked that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed 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 valuation movements that appear unusual.

Results and conclusions

At the time of drafting, our work on the valuation of non current assets is still in progress but we expect it to be completed by the time of the Audit Committee where a verbal update will be given.

VALUATION OF NON-CURRENT ASSETS

Continued

Assessment of significant accounting estimate

Overview	Discussion
Council dwellings are valued by reference to open market value less a social housing discount.	Council dwellings Work in progress.
Land and buildings are valued by reference to existing use market values. Some specialist buildings are valued at depreciated replacement cost by reference to building indices.	Other land and buildings (including specialist buildings) Work in progress.
Investment properties are valued by reference to highest and best use market value.	Investment properties Work in progress.

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VALUATION OF PENSION ASSETS AND LIABILITIES

The valuation of the pension assets and liabilities is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant control findings to be reported	
Letter of representation point	■

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions.

The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The actuarial estimate of the pension fund liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the net present value of the liability.

There is a risk that the membership data and cash flows provided to the actuary at year end may not be accurate, and that the actuary uses inappropriate assumptions to value the liability. Relatively small adjustments to assumptions used can have a material impact on the Council's share of the scheme liability.

The investment portfolio of the Pension Fund includes a significant proportion of assets the valuation of which may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to the significance of these valuations, even a small change in assumptions and estimates could have a material impact on the overall valuation. There is a risk that valuation of pension assets may be based on inappropriate assumptions and estimates, and the share of assets allocated to the Council may not be accurate.

Work performed

We carried out the following planned audit procedures:

- 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.

VALUATION OF PENSION ASSETS AND LIABILITIES

Continued

The valuation of the pension assets and liabilities is a significant risk as it involves a high degree of estimation uncertainty.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant control findings to be reported	
Letter of representation point	■

Results and conclusions

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.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

Essex Pension Fund has established controls and procedures to ensure completeness and accuracy of membership data provided to the actuary. The pension fund auditor, on our behalf, has reviewed these controls and confirmed that their review of the controls to ensure data provided to the actuary is complete and accurate did not identify any issues.

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. The pension fund auditor has reconciled the number of members by each category (active members, deferred members and pensioners) per the final data return to the membership data reported in the final triennial valuation report. The pension fund auditor has also selected a sample of 40 members across the whole pension fund, split between active members, deferred members and pensioners, and has tested the key data points such as date of birth, gender, pensionable salary and qualifying service period etc. to underlying supporting documents. This audit work has not identified any issues.

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. We reviewed the share of pension assets allocated to the Council in the current and prior year. In the prior year, the Council's share of pension assets was 1.90% and is 1.88% in 2019/20, which also provides assurance that the assets allocated to the Council is reasonable.

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, and this is in line with guidance from Royal Institute of Chartered Surveyors (RICS). As reported in Note 31 to the financial statements, share of property assets within the gross pension assets is £11,206k. We have therefore requested management to include additional disclosures about the matter. We anticipate including an Emphasis of Matter paragraph within our audit opinion to refer to this.

From discussions with management, and from our audit procedures performed on the payroll expenses, we have not identified any significant changes in membership data during the year. Also, the annual data return template from the actuary includes details of any bulk transfers as these are estimated by the actuary, and no such data was included in respect of the Council. This data is subjected to data confirmation with individual employers to ensure that they are reasonable. We are therefore satisfied that there were no significant changes in membership data during the year.

We agreed disclosures in Note 31 to the financial statements to the information provided by the actuary and have not identified any issues.

Following the ruling on age discrimination on the McCloud case and gender discrimination on a Lloyds case in the prior year, the actuary made an allowance at the last accounting date and this was, therefore, already included in the opening liability for this year. This allowance was therefore incorporated in the roll forward approach and the actuary has confirmed that this was re-measured 31 March 2020. The approach adopted by the actuary is considered to be reasonable.

VALUATION OF PENSION ASSETS AND LIABILITIES

Continued

Assessment of the significant accounting estimate

Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

Changes in 2019/20

The actuarial valuation of future benefits has decreased by £12.846 million, from £177.051 million to £164.205 million.

Changes in assumptions that have decreased the liability include a decrease in CPI and future pension increases (from 2.45% to 1.90%) and decrease in salary increase (from 3.95% to 2.90%), which was partially offset by reduction to the discount rate (from 2.40% to 2.35%). Mortality assumptions have not been changed significantly during the year, as such this has resulted in a decrease in the liabilities from these actuarial assumptions only by £0.899 million (0.5%). The liability has increased by £1.810 million (1%) due to experience loss.

Discussion

The pension liability to pay future pensions has decreased by £12.846 million to £164.205 million at 31 March 2020.

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
RPI increase	2.70%	2.65% - 2.80%	Reasonable
CPI increase	1.90%	1.85% - 1.95%	Reasonable
Salary increase	2.90%	2.85% - 2.95%	Reasonable
Pension increase	1.90%	1.85% - 1.95%	Reasonable
Discount rate	2.35%	2.35%	Reasonable
Mortality - LGPS:			
- Male current	23.2 years	22.8 - 24.7	Reasonable
- Female current	25.2 years	25.2 - 26.2	Reasonable
- Male retired	21.8 years	21.4 - 23.3	Reasonable
- Female retired	23.7 years	23.7 - 24.7	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the financial and mortality assumptions are within the expected range based on national data and therefore the assumptions are considered to be reasonable.

The pension liability has increased by £1.810 million due to experience loss, which represents 1.0% of opening liability. This is considered to be reasonable given the inherent limitations of a roll forward approach.

We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges. We have included specific representations that management confirm that the assumptions used reflect their understanding of the future expectations of the scheme.

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GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern.

Management has not prepared a going concern assessment in line with the CIPFA Bulletin 05, which states that "the requirements to use the going concern basis of accounting means that authorities therefore cannot apply paragraph 25 of IAS 1 mandating management to make an assessment of the authority's ability to continue as a going concern. The going concern assumption under the Code is therefore drawn up to assume that a local authority's services will continue to operate for the foreseeable future. This is despite the impact of COVID-19 on local authority financial sustainability because the going concern basis of reporting in the Code and the rationale behind it remains unchanged".

The Bulletin further states that "However, it is recognised that while the going concern assumption in the Code remains in place, this is separate from the need for local authorities to report on the impact of financial pressures in the narrative report". In line with this requirement the Council has reported the financial pressures it has faced in current climate under Covid-19. Our review of the narrative report identified that the Council has provided sufficient disclosures in the narrative report.

Nevertheless, despite financial pressures the Council has retained usable reserves of over £50m. The Council has reported an underspend against the budget in recent years, and managed its financial pressures effectively.

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Consideration of materiality in the preparation of financial statements: Local Authorities are required to prepare their accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA/LASAAC. The adoption of IFRSs has meant a substantial increase in the amount of information reported, yet the overarching principle of providing clear, simple and relevant information should be adhered to. CIPFA has published a guidance 'Streamlining the Accounts' which aims to supply practical ways of streamlining both financial statements and year-end financial processes. There is also a significant focus in recent regulator/quality reviews regarding the inclusion of immaterial notes and disclosures.	We observed that a number of immaterial notes and disclosures have been included in the Council's financial statements. These included: • A note for other operating expenditure with total of £1,528k (2018/19: £1,724k). • A breakdown of General Fund and Housing Revenue Account capital commitments (£179k and £734k respectively). • A note for intangible assets with net book value of £69k (2018/19: £158k). • A note for provisions with a value of £1,503k (2018/19: £1,385k). • Lease disclosures for authority as lessee (£467k), and finance lease disclosures for authority as lessor (£378k). • Disclosure note for contingent liabilities with a value of £276k (2018/19: £352k). • A disclosure note for material items of income and expenditure which have been reported elsewhere in the financial statements. • A number of immaterial accounting policies, including heritage assets, intangible assets, inventories and leases. Management agreed to amend the financial statements for the above matters.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 26 March 2020.

Internal audit

We reviewed the audit work of the Council's internal audit function and used it to assist our risk scoping at the planning stage.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

Our audit work on related party transactions is currently in progress.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

We are required to bring to your attention unadjusted differences and we request that you correct them.

Our audit did not identify any unadjusted audit differences.

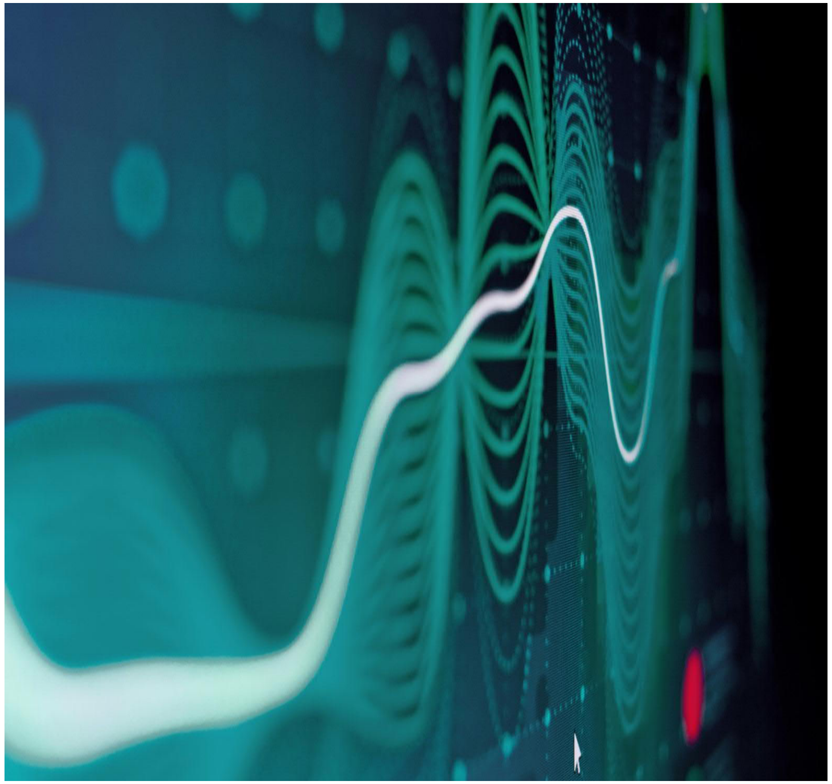
ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit Committee is required to consider.

The following adjusted disclosure matters were noted:

- The external valuer of the Council's property assets had reported within the valuation report that the valuations have been reported on the basis of material uncertainty due to the impact of Covid-19, and this was as advised by RICS. The draft financial statements did not include disclosures in respect of this material valuation uncertainty associated with the property assets. A similar disclosure was also required in respect of the property assets included within gross pension assets. The required disclosures have subsequently been reported.
- Events after the reporting period disclosure did not include the impact of Covid-19, and has subsequently been updated.
- A disclosure note in respect of critical judgements in applying accounting policies was missing and subsequently included.
- Maturity analysis of financial liabilities had been prepared based on discounted cash flows (i.e. loan capital payments). However, the CIPFA Code requires preparation of this note using the contractual full cash flow amounts.
- Collection Fund Income and Expenditure Statement did not include comparative information reported for Council Tax and Business Rates, but only the total amounts had been reported.



REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	Our review of the Narrative Report identified some minor areas for follow up and potential amendment. We anticipate these will be amended in the revised Statement of Accounts brought to the Audit Committee. We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020. The Council met this deadline. We are planning to submit the relevant section of the assurance statement to the National Audit Office by the audit deadline of 4 December.

OVERVIEW

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	No

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.

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	

Risk description

During the 2017/18 year the Council introduced a new long term approach to budgeting/forecast under which a long term financial forecast is prepared for a ten year period which is updated on a regular basis. The most recent forecast in February 2020 shows a cumulative budget gap of £1.523m by 2023/24 and a cumulative budget surplus of £1.551m has been forecasted for the remaining years to 2026/27.

The 2019/20 budget monitoring shows that at the end of December 2019 there is an overall net underspend of £2.864m, although this is largely due to timing differences of income and expenditure.

As per 2018/19 outturn report for General Fund revenue financial performance, outturn for the year was a surplus of £3.583m against a net budget expenses of £11.339m, which represented a favourable variance (underspend) of £14.922m. The variance was primarily due to carry forward of a number of planned projects.

At 31 March 2019 the Council had total usable reserves of £51.245m which included the General Fund balance of £31.207m and HRA balance of £8.783m.

Whilst there is a recognition that the Council manages its finances in a prudent manner, given 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.

Work performed

- 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;
- Reviewed the strategies to utilise budget surpluses after 2023/24 and assess how these are deployed for better delivery of Council services.

SUSTAINABLE FINANCES

Continued

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.

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings to be reported	■

Discussion and conclusion

Adequacy of the budget setting and financial management processes:

During 2017/18 the Council introduced a new Long Term Financial Sustainability Plan under which budget and the financial forecasts are prepared for a 10 year period, with this is being updated on a regular basis throughout the year. The detailed budget for 2020/21 has been prepared within the above framework. Clear rationale has been stated in respect of the formulation of the financial forecast and how it has been translated into the detailed budgets for 2020/21. This has been supported by a risk assessment of each line of the forecast. The financial forecasting process continues to remain alert to government announcements and the impact of external issues such as funding receivable from elsewhere within the public sector. Within the Financial Strategy framework there is Cabinet involvement at various stages in addition to a comprehensive review and associated input from the Resources and Services Overview and Scrutiny Committee. Our review of the Council's budget setting and financial management process concluded that they are adequate.

Effectiveness of the Council's policies and procedures for periodically reviewing existing reserves:

At 31 March 2020 the Council had a General Fund (GF) balance of £32.9 million (including earmarked reserves of £28.9 million), HRA balance of £7.0 million, major repairs reserve £4.3 million, capital grants unapplied reserve of £1.9 million and capital receipts reserve of £7.7 million, thus total usable reserves of £53.8 million. Our review of the Earmarked reserves identified that the Council had a Revenue Committed Reserve of £11,423k and Capital Committed Reserve of £3,793k at 31 March 2020. Both these reserves had consistent balances in the past. The reserves represent revenue and capital items for which financial provisions have been made in the current or previous year, and therefore these are the carried forward items from the budget. As per the GF 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 (including prior year carry forward). The equivalent amount in the prior year was £9.212 million within a budget of £22.142 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. We understand that the Council has engaged an external consultant perform this assessment and make recommendations for action to be taken. We have included a recommendation on page 31 to expedite this process.

Our benchmarking shows that the Council has a review also identified that the Council has accumulated a number of reserves, including:

- Building for the future reserve £2,610k - this reserve has been set up to support the delivery of a balanced budget in future years. This is in addition to the Forecast Risk Fund (£3,088k) which has been set up to 'underwrite' any adverse variances in the long term financial forecast. Although the Council has planned to temporarily utilise £1,371k of this reserve in 2020/21 to make an upfront payment of 3 years pension contributions under the 'spend to save' initiative, this reserve, when considered in conjunction with the Forecast Risk Fund, could be perceived as overly cautious.
- Business Rate Resilience Reserve £1,758k – this has been set up to support the Council in reacting to any potential future changes in Business Rate appeals and income, reducing the impact should the Government, at some time in the future, change the rules around business rate retention. As there are no known plans for Government to do so, maintaining this reserve could be perceived as overly cautious by council tax payers.

SUSTAINABLE FINANCES
Continued

We also identified that some earmarked reserves have not moved notably for the last two or three years, which could indicate that they are over prudent.

The levels of reserves held is clearly a matter of judgment for management and Members, however, we recommend a review of the level of each reserve against its stated purpose and associated risks, to consider their ongoing validity and demonstrate they are held at level that optimises service delivery without unacceptable risk exposure. We have included a management recommendation on page 31 to this effect.

Review the financial outturn for 2019/20 and progress against the 2020/21 budget:

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. This gives a residual surplus of £1,520k after agreed carry forwards which will be reallocated to services for future years. Some large projects which were carried forward include the Garden Communities Project with a value of £1,300k (with the Garden Communities project not being progressed, funds are now planned to be used for the Tendring Colchester Border project instead), the business investment and growth project with a value of 1,586k, Rural and Urban Infrastructure Fund with a value of £1,184k and local plans with a value of £713k.

The Quarter II budget monitoring report presented to the Cabinet in November 2020 shows the position to the end of September 2020 that overall the General Fund Revenue Account is underspent against the profiled budget by £6.858m (£4.137m of which relates to the timing of expenditure from COVID funding received from the Government). It is acknowledged that other expenditure or income trends may still be emerging with the position also largely reflecting the timing of other general expenditure and/or income budgets. Although, there is an underspend against the budget by September 2020, this is due to the timing of income and expenditure and this underspend is expected to be significantly reduced going forward. Having a large underspend in the first half of the financial year is also in line with previous years and partly due to the carry forward.

In respect of other areas of the budget such as the Housing Revenue Account, capital programme, collection performance and treasury activity, there are no major issues that have been identified.

Review the strategies to utilise budget surpluses after 2023/24:

At the time of our Use of Resources planning, the Council's long term financial plans showed an expected cumulative deficit of £1.523m for the three years to 2023/24 and total surplus of £1.551m for the remaining 3 years to 2026/27, thus a cumulative surplus of £28k. Accordingly, we planned to review the Council's strategies to utilise the budget surpluses during the last three years of the forecast.

However, the Council has since revised its long term financial forecast following the impact of Covid-19. As per the September 2020 update to the forecast, the Council's revised forecast shows that it will have deficits for all 6 years to 2026/27 with cumulative budget gap of £6.208m. Therefore, no budget surpluses in the forecast for assessment. Although, the revised forecast shows a significant budget gap in the period, this is largely due to the uncertainties created by the Covid-19 pandemic, and the Council is required to reassess this when uncertainties are reduced. Given the historical financial performance of the Council and our considerations above, we do not consider the significant budget gap above is indicative of any significant issue.

Overall conclusion:

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 have made recommendations in respect of these issues.

SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Our audit work did not identify any significant deficiencies in internal controls.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Logical access controls – number of super users	Our review of the Council's IT systems identified that there are a large number of super users (users with privileged access rights) on a number of IT systems. There were 28 super users for the Capita system, 10 super users for the Northgate system and 6 super users for the Agresso system. We consider that 2-3 super users per system would provide a robust level of IT security, and having a large number of super users could jeopardise system security.	1. Assess the number of super user access rights granted in each of the IT systems and take necessary actions to reduce the number of super users to an acceptable low level.	Agreed
Use of Resources	As set out on page 28, we identified some significant amount of carry forward each year from the planned projects of revenue and capital items, which indicates an issue of deliverability of planned projects. As set out on page 28-29, there is a risk that reserves are not being held at the optimum level, given that number of them have not moved notably in recent years.	2. Assess the ongoing viability of planned projects and take actions such that they can be delivered within a reasonable time and minimise the carry forward. 3. Assess, at least once every two years, the appropriateness of the levels of individual reserves and their continued validity based on factors such as historic utilisation rates, associated risk / sensitivity analysis and their underlying purpose and release any excess reserves.	Agreed

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Related party transactions	In the prior year we reported that the Council does not obtain annual declarations from members which is on the basis that onus is on the members to notify the monitoring officer of any changes without any routine reminders to send any updates. Whilst we agree with the Council's approach in principle, from the practical point of view and given the inherent risk associated with related party transactions, we consider it is appropriate to obtain an annual declaration from the members of the Council. Not requesting annual declarations/ confirmations could result in related party relationships and transactions could go undetected.	Send an annual email/letter requesting all members to confirm whether there are any amendments to the original declarations. Obtain nil returns/responses as part of this process.	During the 2019/20 year the Council implemented this recommendation and obtained annual declarations from the members. We are yet to confirm whether the Council has obtained annual declarations from all members.	Agreed

OVERVIEW

Opinion on financial statements

We anticipate issuing an unqualified opinion on the financial statements.

The updated financial statements include disclosures about a material valuation uncertainty in respect of ‘Other land and buildings’ within Property, Plant and Equipment, and ‘Property’ assets within the Local Government Pension Scheme Assets, due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

Conclusion on use of resources

We are proposing to issue an unmodified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

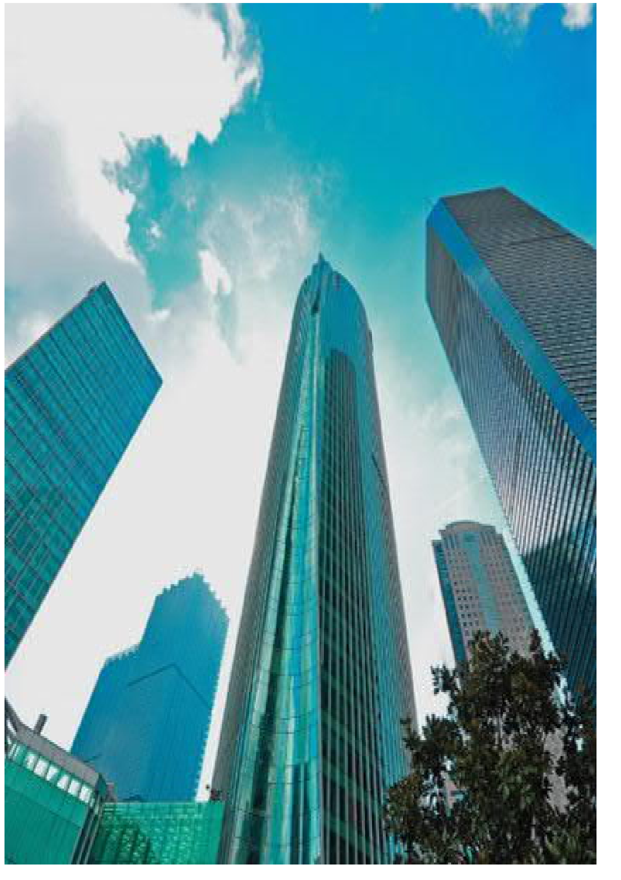
FEES

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 undertaken.

(3) The 2019/20 planned Code audit fee is the PSAA-published level. The Scale is based on the historical position from 2012/13 and so does not reflect any of the changes in audit scope and depth linked to current audit requirements for property, plant and equipment or pensions liability valuation work. Discussions on the total fee impact will be held initially with officers in the context of detailed operational planning and interim audit scope so as to best mitigate increases.



APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the directors of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council had not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

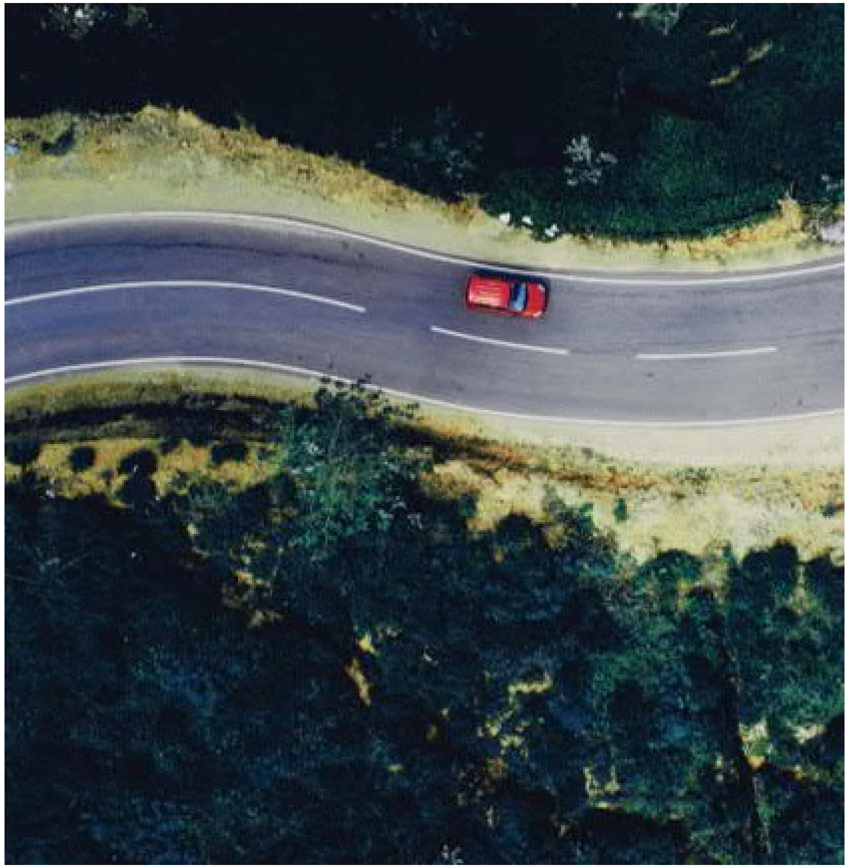
Communication	Date (to be) communicated	To whom
Audit Planning Report	26 March 2020	Audit Committee
Audit progress report	At Audit Committee meetings	Audit Committee
Audit completion report	30 November 2020	Audit Committee
Annual Audit Letter	28 January 2021	Audit Committee

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and could impact our audit opinion. We expect that this small amount of residual work will be complete before the Audit Committee, at which we will provide a verbal update:

- Completion of the audit testing / clearance of audit queries in respect of:
  - o Housing benefit expenditure
  - o Reserves
  - o Impairment allowance for debtors
  - o Local Council Tax Support Scheme expenses audit queries
  - o Commitments and contingencies testing
  - o Related party transactions testing
- Completion of partner and manager review of the audit file and clearance of review points.
- Review of the updated Statement of Accounts
- Subsequent events review
- Management letter of representation, as attached in Appendix G to be approved and signed



LATEST REGULATORY DEVELOPMENTS

Future of Audit, Regulation and Market Competition

A number of corporate governance, financial reporting and audit failures since the 'financial crises' have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	'Carillion' report issued 5/2018	'Future of audit' report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
'Report of the Independent Review in to the quality and Effectiveness of Audit' – Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
'Independent Review of the FRC' by Sir John Kingman	Kingman Report published – 83 recommendations 18/12/2018	Secretary of State announces plans for a new regulator (ARGA) 11/3/2019	48 recommendations to be implemented by FRC BEIS first implementation consultation ended 11/6/2019			Further consultations expected in 2020

LATEST REGULATORY DEVELOPMENTS 2

Continued

Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC – requested by the Secretary of State	• Highlighted deficiencies in FRC and its operating effectiveness • New regulator to replace FRC 'Audit, Reporting and Governance Authority' • Reconsideration of which entities are classed as 'public interest' A number of changes require legislation changes but the FRC is working on implementation where possible.
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 – Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	The proposals being classed as: • FRC and BEIS will implement as soon as possible • Can be implemented once considered, in advance of legislation • Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	Report 18 April 2019 – suggestions include • Increased accountability of audit committees including a focus on how they select auditors and their consideration of audit quality • Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews • An operational split between the audit and non audit practices of the big 4 • A 5 year review of progress by the new regulator Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

LATEST REGULATORY DEVELOPMENTS 3

Continued

Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy Committee) Report 'The Future of Audit' – 24 April	Consideration of 2 reports – CMA and Kingman – to ensure they will lead to coherent framework	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular: • Implement Kingman recommendations as soon as possible • Endorsement of CMAs suggestion to split firms operations between audit and non-audit • Segmented market cap and joint audits for FTSE 100 • Detecting fraud a priority • Tightening of dividend regime • Make audit more forward looking • Welcomes introduction of ARGA – deal with failures more quickly and more stringently Published June 2019.

LATEST REGULATORY DEVELOPMENTS 4

Brydon

In December 2019 Sir Donald Brydon published his “Report of the Independent Review in to the quality and Effectiveness of Audit” . This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- Audit Purpose, Audit Profession and Auditor reporting;
- Directors’ Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud;
- Transparency;
- Technology;
- Auditor Liability;
- Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGA – the new regulator.

Key considerations for Audit Firms

- A new definition of audit: “ The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”
- Recognition of other stakeholders alongside the company’s shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for ‘professional suspicion’ alongside ‘professional scepticism’;
- Replace ‘true and fair’ with ‘present fairly, in all material respects’;
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors’ statement in relation to fraud; and
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company’s internal controls over financial reporting;
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee Chair and the auditor.

LATEST REGULATORY DEVELOPMENTS 5

Redmond

On 8 September 2020, Sir Tony Redmond published his Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
  - an annual report being submitted to Full Council by the external auditor;
  - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
  - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an SME listed entity - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

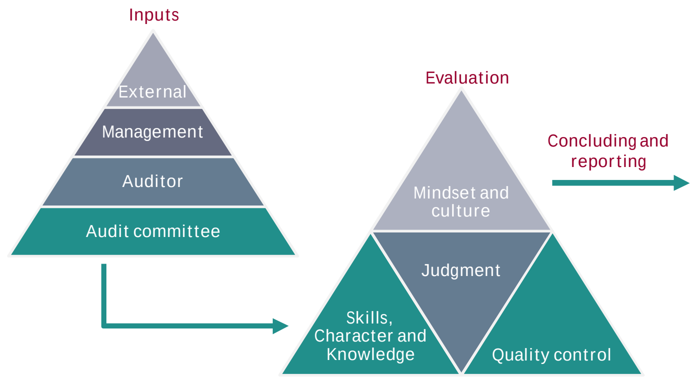
FRC PRACTICE AID FOR AUDIT COMMITTEES

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the FRC website. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the FRC website.

Letter of representation

Contents

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich, Suffolk
IP3 9SJ

Dear Sirs

Financial statements of Tendring District Council for the year ended 31 March 2020

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Assistant Director Finance and IT has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

Other than those disclosed in the financial statements there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

You have not advised us of any unadjusted misstatements in the financial statements or other information in the Annual Report.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note to the financial statements, there were no loans, transactions or arrangements between the Council and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements are reasonable:

a) Pension liability assumptions

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- RPI increase 2.70%
- CPI increase 1.90%
- Salary increase 2.90%
- Pension increase 1.90%
- Discount rate 2.35%
- Mortality: Current pensioners - male 21.8 years and female 23.7 years / future pensioners - male 23.2 years and female 25.2 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

b) Valuation of housing stock, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the external valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as level 2 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax arrears, NDR arrears and housing benefit overpayments are reasonable, based on collection rate data.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Richard Barrett

Assistant Director Finance and IT

Date:

Alan Coley

Chair of the Audit Committee

Date:

AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the FRC's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

Lisa Clampin

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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.

www.bdo.co.uk