Report to the Audit Committee

TENDRING DISTRICT COUNCIL

Audit Progress Report: year ended 31 March 2021

IDEAS | PEOPLE | TRUST

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WELCOME

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We have the pleasure in presenting our Audit Progress 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 progress of our work completed on the planned audit approach for the year ended 31 March 2021.

At this stage of the audit, we engage with the Audit Committee on the progress of our audit of the financial statements 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 and Risk Committee meeting on 15 December 2022, and to receiving your input.

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.

Aphrodite Lefevre, Director
For and on behalf of **BDO LLP**, Appointed Auditor

14 December 2022

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Financial reporting

- We have not identified any non-compliance with Group accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement complies with relevant guidance and is not inconsistent or misleading with other information we are aware of.

Independence

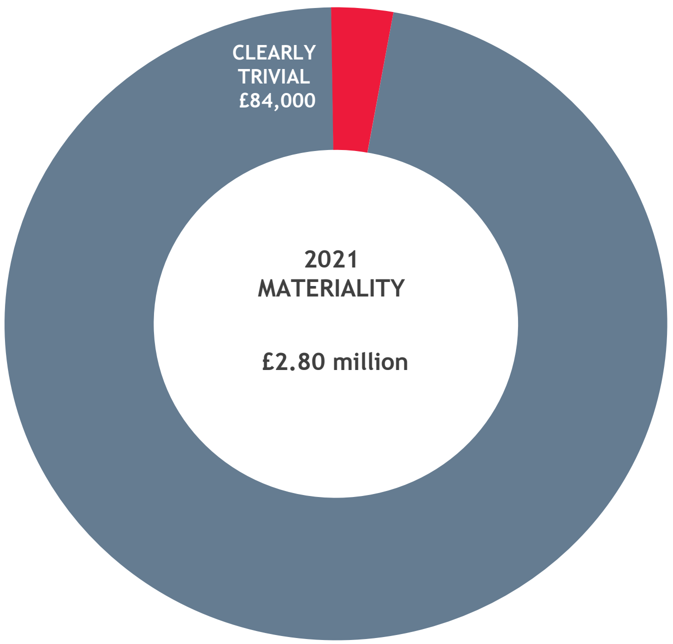
We confirm that the firm and its partners and staff involved in the audit remain independent of the Council and the Group in accordance with the Financial Reporting Council’s (FRC's) Ethical Standard.

Material misstatements

We have not identified material misstatements based on the audit work performed to date.

Other misstatements

We have not identified material misstatements based on the audit work performed to date.



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AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 27 May 2021 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.

No additional significant audit risks have been identified.

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
Valuation of Non Current Assets	**Significant**	Yes	Yes	No	No	No
Valuation of Pension Liability	**Significant**	Yes	Yes	No	No	No
Expenditure Cut Off	**Significant**	No	No	No	No	No

Note - our work is currently undergoing internal quality review as such there may be changes to the above results following conclusion of the audit.

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Contents

ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.

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

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we are required to consider this as a significant risk of material misstatement due to fraud.

Work performed

We carried out the following planned audit procedures:

- We determined key risk characteristics to filter the population of journals and used our IT team to assist with the journal extraction;
- Reviewed and verified journal entries made in the year, by agreeing the journals to supporting documentation. Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and

Results

We used our data analytics tool, BDO Advantage, to analyse journals processed throughout the year and as part of the financial reporting.

We selected items for testing in accordance with specified characteristics. For all items selected for testing, we gathered supporting evidence and documented results. There were no instances of missing documentation, or any issues with the testing performed.

Our review noted that all journals were adequately supported and related to transactions in the normal course of business. No evidence of management override has been identified.

Our work on the review of management estimates has not identified the existence of any systemic bias.

There were no unadjusted audit differences which could indicate bias or deliberate misstatement.

Conclusion

Our audit work is still subject to internal quality review however based on the work we have completed to date, we have no matters to bring to your attention.

EXPENDITURE CUT OFF

Contents

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

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 confirmed that expenditure was recognised in the correct accounting period by substantively testing a sample of expenditure items around year-end.
- A financial threshold was set to determine the samples to be selected for this testing. A lower threshold was used to reflect our assessment as a significant risk.

Results

Our audit work on expenditure cut off has tested a sample of items around the year-end, by agreeing them to supporting documentation, determining which financial period the expenditure was related to and confirming that the expenditure has been recognised in the correct year, with accruals/creditors or prepayments recognised where necessary.

Our initial testing is complete, on which we have raised a number of queries for resolution with management.

Conclusion

Our audit work is still subject to internal quality review however based on the work we have completed to date, we have no matters to bring to your attention.

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 five 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 could rely on the management expert;
- Verified that the basis of valuation for assets valued in year was appropriate based on their usage;
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets;
- Critically assessed valuation movements that appeared unusual;
- Verified the accuracy and completeness of information provided to the valuer, such as rental agreements and sizes.

Results

Instructions provided to professional valuers were in line with expectation, considering the nature of the valuations to be undertaken, the year's capital programme and the valuers' experience with the Council. The valuers are sufficiently qualified to provide the valuations.

Our audit procedures relating to assumptions and valuation inputs used by the valuer are in progress at the time of writing. We have further discussed our work on the non-current asset value estimates on the subsequent slides.

Professional valuations were dated as at 30 September 2020. We noted that management did have a formal process by which they gained assurance that there was no material movement between 30 September 2020 and the year end.

We are undertaking an assessment, with reference to relevant market indices, the expected change in valuation between the valuation date and the year end to gain assurance that all material movements have been accounted for within the financial statements.

Conclusion

Our audit work is still subject to internal quality review however based on the work we have completed to date, we have no matters to bring to your attention.

VALUATION OF NON CURRENT ASSETS

Significant accounting estimates: Valuation of PPE and Investment properties and assumptions used therein

Overview

The Council's valuation process in 2020/21 comprised the following:

- Land and buildings are valued cyclically, at least every five years, with high-value assets being valued more frequently;
- Revaluations are completed on types of assets thought to have moved significantly due to market factors or indications of impairment;
- Revaluations are completed on assets subject to significant capital works or alterations in the year;
- All assets held at fair value (investment properties and surplus assets) are revalued annually;

Valuations are completed by an external professional valuer as follows:

- Council dwellings are valued by Bruton Knowles on an existing use basis with a social housing adjustment (EUV-SH), using beacon assets and applying the outcome to comparable assets.
- Property, plant and equipment (PPE) - Land and buildings - are valued by Bruton Knowles at current value in existing use. This amounts to existing use value (EUV) valuations, or when there is no market for assets due to their specialist nature those assets are valued at depreciated replacement cost (DRC).
- The Council has one investment property which was valued by Bruton Knowles at market value (MV).
- Professional valuations were dated as at 30 September 2020. Management formally engage with Bruton Knowles to gain assurance over any material movement between 30 September 2020 and the year end. For General Fund assets, the movements for both specialised and non-specialised assets were deemed to be immaterial at £1.2m. For HRA assets, the movement of £3.1m was considered material and adjusted for within the financial statements.

We have analysed the valuation approach, audit work done and any findings for each of these categories in the subsequent slides.

VALUATION OF NON CURRENT ASSETS

Significant accounting estimates: Valuation of PPE and Investment properties and assumptions used therein

Council dwellings valued at Existing Use Value - Social Housing (EUV - SH)

Council dwellings are valued by Bruton Knowles on an existing use basis with a social housing adjustment (EUV-SH), using beacon assets and applying the outcome to comparable assets. We undertook the following work in relation to this class of asset:

- We have assessed that the beacon properties used possess the characteristics required and therefore could be used as archetypes;
- Inspected comparable recent sales for a sample of beacon properties and confirmed that the value of the beacon properties did not deviate significantly from market data;
- Compared that the movement in the value of beacon properties against other UK house prices indices (including land registry data).

Based on the work we have completed to date, we have no matters to bring to your attention.

Investment Properties measured at Fair Value

Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields. The Council owns one retail unit which is used solely to earn rental revenue and has no Local Authority service delivery from within it and therefore has been correctly recognised as an investment property. The valuer has adopted an investment approach and the audit work performed was as follows:

- There was a decrease in the valuation of the property of £170k. This was driven by the decrease in the lease term and the overall weak retail market, mostly determined by the impact of the pandemic.
- We have substantively tested the valuer’s calculations and explanations, including corroboration of inputs used such as rent passing and Gross Internal Areas and a reasonableness check of assumptions such as yield to market data from Knight Frank.

Based on the work we have completed, we have no matters to bring to your attention.

Impact of assumptions on the estimate/judgement

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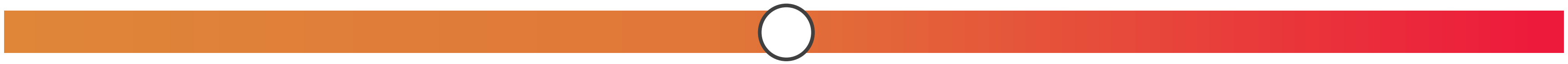

VALUATION OF NON CURRENT ASSETS

Significant accounting estimates: Valuation of PPE and Investment properties and assumptions used therein

Other Land and Buildings valued at Depreciated Replacement Cost (DRC)

Leisure centres, crematorium, public conveniences and seafront shelters are valued at depreciated replacement cost using the existing gross internal area, estimated rebuild costs and the land value. This valuation is then reduced to reflect the age and remaining useful economic life of the building and accounts for professional fees. We undertook the following work in relation to this class of asset:

- Verification of build costs to source BCIS data is in progress;
- Land value used have been based on recent sales on comparable properties. The land rates from comparable sales have been adapted to suit the specificities of the council’s assets being valued. Our verification of comparable sales data is in progress;
- The instant build approach is applied, thus eliminating finance costs and reducing professional fees from the normal 12% - 15% to 6%, thus excluding planning fees, design fees and survey fees. The only fees allowed are professional fees incurred during the course of constructing the asset. The fee rates assumed to apply to the Council’s valuations are not materially different to rates assumed by other valuers in the sector.
- Based on the work we have completed, we have no matters to bring to your attention.

Impact of assumptions on the estimate/judgement

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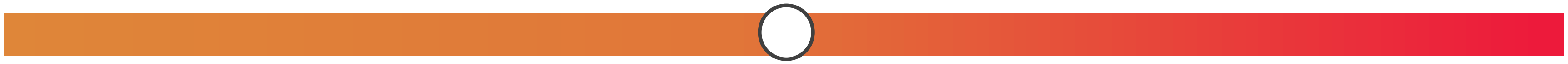

VALUATION OF PENSION LIABILITY

The valuation of the pension assets and liability 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 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. Due to significance of these valuations, a small change in assumptions and estimates could have a material impact on the council's share of the scheme liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary
- Assessed the competence of management's expert (the actuary)
- Assessed the controls in place for providing accurate membership data to the actuary
- Checked that any significant changes in membership data have been communicated to the actuary
- Checked the reasonableness of the assumptions used in the calculation of the pension fund liability against other local government actuaries and other observable data
- 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.

Results

No issues were found in assessing the competency of managements experts, or in the agreement of disclosures to information provided by the actuary.

The assumptions on which the Council has based its disclosure are consistent with those used by the actuary, which are in line with the expectations set out in PwC's consulting actuary report.

Our consideration of the assumptions used in the valuation are detailed on the following pages.

Conclusion

Our audit work is still subject to internal quality review however based on the work we have completed to date, we have no matters to bring to your attention.

VALUATION OF PENSION LIABILITY

Significant accounting estimates: Pension Liability

The Council's net pension liability has increased from £39.602 million to £42.283 million and it's share of the scheme assets increased from £124.603 million to £161.441 million. The increase in the liability has been mainly driven by the decrease of the discount rate used to 2% (2.35% in prior year) and 0.9% increases in both the pension and salary rate.

The key estimates are the following financial and mortality assumptions. We have compared the key financial and demographic assumptions used to an acceptable range provided by our a consulting actuary.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.20%	3.15 - 3.35%	Reasonable
- CPI increase	2.80%	2.8% - 2.85%	Reasonable
- Pension increase	2.80%	2.8% - 2.85%	Reasonable
- Salary increase	3.80%	3.8 - 3.85%	Reasonable
- Discount rate	2.00%	1.95 - 2.05%	Reasonable
Mortality:			
Assumed longevity retiring at current dates			
- Male	21.6 years	20.5 - 23.1	Reasonable
- Female	23.6 years	23.3 - 25.0	Reasonable
Assumed longevity retiring in 20 years			
- Male	22.9 years	21.9 - 24.4	Reasonable
- Female	25.1 years	24.8 - 26.4	Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and result in an estimate of the pension liability which falls within a reasonable range.

Impact of assumptions on the estimate/judgement

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Fraud

While officers 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 to date 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.

Laws and regulations

The most significant considerations for your organisation are the:

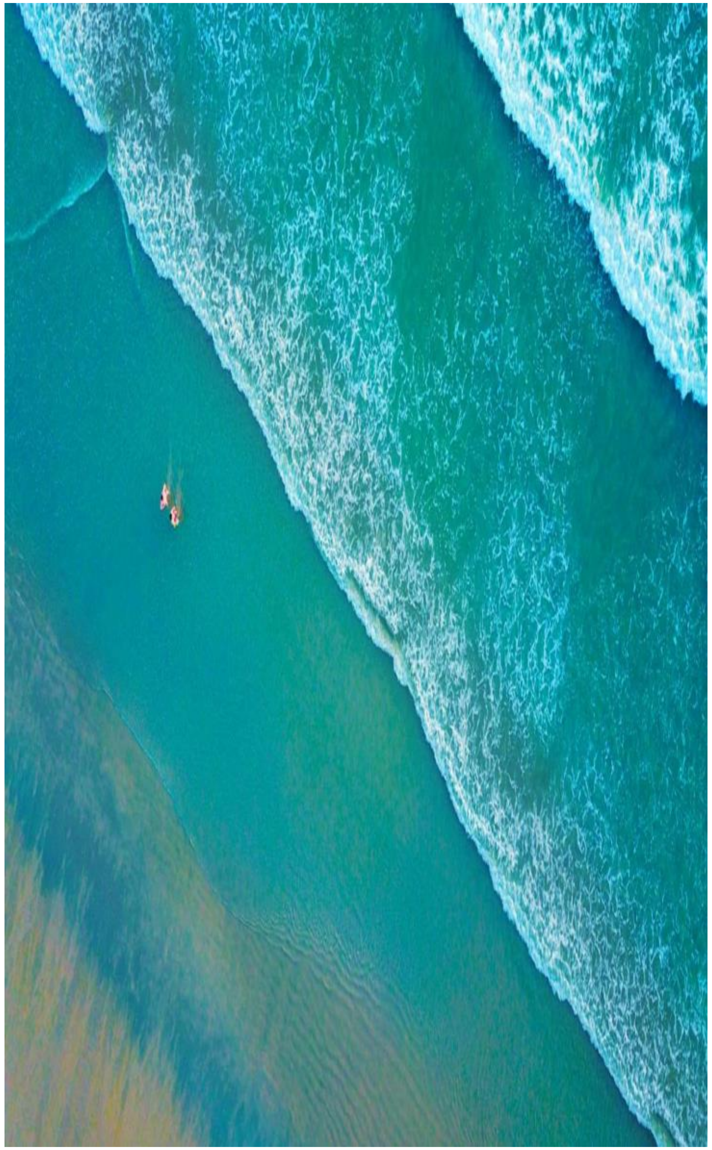
- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Government and Housing Act 1989
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

To date, we did not identify, any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

While 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.

From the work undertaken to date, we identified significant internal control deficiencies in connection with related parties. Further detail is provided on page 16.



REPORTING ON OTHER INFORMATION

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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.	Based on the work we have completed to date, we have no matters to bring to your attention.
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 group.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements, and our knowledge of the Council.

OTHER DEFICIENCIES

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We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. We have not identified any significant deficiencies, but include other observations below. 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, 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.

Area	Observation & implication	Recommendation
Related Parties - Out of date declarations	Two (2) councillors had out of date declarations and updates were not obtained in March 2021. This was then subsequently raised to the client and up to date declarations were obtained post-year end. There is a risk that transactions between related parties are not identified, disclosed and are not arm's length.	We recommend that management should monitor the declaration process regularly to ensure that up to date declarations are obtained by year end.
Related parties - Undisclosed directorship	Seven (7) undisclosed directorships discovered (5 councillors and 2 senior officers) which suggest that this is a control weakness. There is a risk that transactions between related parties are not disclosed and are not arm's length.	We recommend management should implement a process by which they undertake an independent check on Companies House to ensure that any undisclosed directorships have been properly identified and ultimately disclosed by councillors and senior officers.

APPENDICES CONTENTS

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Appendices contents

Communication with you

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 liaised 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	May 2021	Audit Committee
Audit Progress Report	December 2022	Audit Committee
Audit Completion Report	January 2023	Audit Committee
Auditor’s Annual Report	We expect to publish our report no later than three months following the date of our audit opinion.	Audit Committee

COMMUNICATION WITH YOU

Audit Sector developments

The sector has seen a number of pressures arising since the faster close agenda brought the reporting deadline forward for the 31 March 2019 period to 31 July 2019. Only 60% of local government bodies were able to publish audited accounts by this deadline. By exception, there remain a number of 2018/19 audits outstanding to date.

The 31 March 2020 publication deadline, initially pushed back to end September 2020 from July 2020, was then further extended to 30 November 2020. However, only 45% of local government bodies were able to publish audited accounts by this extended deadline, with even traditionally better performing authorities close to or at the deadline date.

Recruitment and retention of staff with suitable public sector experience has become increasingly challenging on a national level. Added to this the increased scope of audit work, increased complexity in public sector accounts and extensive regulatory requirements have continued to add to this pressure sector wide. It has been widely recognised that the audit sector, and public sector audit specifically, requires reform to enable it to remain sustainable. The Redmond review specifically focuses on recommendations to help achieve this in the longer term.

Alongside these already present pressures, a global pandemic manifested additional impacts and pressure. New challenges of remote working, onboarding and training new staff remotely, communication, IT support and illness within the team directly impacting efficiency and delivery.

The 31 March 2021 publication deadline was set at end September 2021. Audit firms and audit regulation bodies did feedback that this was not realistically achievable. Only 9% of 2021 audits were completed by 30 September 2021, with 20% by 30 November 2021 and 40% by 31 December 2021.

Audit progress

Due to an unexpected absence of a key member of the team, and then the resignation of key members of the audit team, our audit has taken longer than expected. We have worked with the Council's finance team to make good progress in a number of areas of the audit.

The 2021 audit has been challenging to deliver, with issues outlined above, in addition to the longer-term impacts of Covid-19 and remote working. There are several significant accounting estimates requiring management judgement, all of which require more detailed consideration in light of revised auditing standards and regulator focus, resulting in the need for more resource and specialist resource. Council officers have, throughout, provided good quality working papers and support to the team.

We will continue to work with officers towards the completion of this audit and we will update officers on progress on a regular basis.

FOR MORE INFORMATION:

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