



UPDATE TO AUDIT COMMITTEE

TENDRING DISTRICT COUNCIL

13 JULY 2023

SUMMARY OF PROGRESS ON 2020-21 AUDIT

Summary

The purpose of this report is to provide the Audit Committee with an update on the progress of our audit on the Council's 2020/21 financial statements. The majority of our work on the Council's finance statements is now substantially complete. However, a small number of matters related to the valuation of property plant and equipment assets remain unresolved, and we have out a summary of these below.

Outstanding issues

1. Other Land and Buildings valued at Depreciated Replacement Cost (DRC) (Gross book value £53.38m, net book value £53.29m)

Comprising leisure centres, crematorium, public conveniences and seafront shelters valued on the basis of their DRC using gross internal area (GIA), estimated rebuild costs, and land value. This valuation is then reduced to reflect the age and remaining useful economic life of the building.

For assets valued on the basis of their DRC, the Council have been unable to provide us with floor plans to enable us to test the GIAs used in determining the valuation of these assets. Existing floor plans were not retained by the Council and remain with the Council's previous valuers. The GIAs are key inputs to the valuation of these assets and in the absence of these floor plans, we have insufficient evidence on which to test the valuation of these assets. We will discuss with the Council what further evidence the Council can provide to support the valuation of these assets.

2. Infrastructure assets (Gross book value £56.3m, net book value £36.9m)

These assets consist of coastal protection schemes. The Council have provided historic cost records to support the gross book value, and then depreciated these assets over an estimated 20-year useful economic life.

To support the estimated useful life of these assets, the Council have provided evidence from an external third party, supplemented by a sensitivity analysis. We are in the process of reviewing the information provided.

YEAR ENDED 31 MARCH 2021

WORK COMPLETED

- ▶ Fieldwork and majority of audit testing completed
- ▶ Financial statements reviewed and proposed amendments provided to management

INFORMATION REQUIRED FROM THE COUNCIL TO RESOLVE OUTSTANDING ISSUES

- ▶ Further information is required to substantiate the GIA used in the valuation of other land and buildings
- ▶ Council to respond to any further requests for evidence to support the valuation of coastal defence assets classified as Infrastructure assets
- ▶ Council to respond to any additional requests for information to support our use of resources assessment, fraud review, and subsequent events testing.
- ▶ Revised set of financial statements to be prepared incorporating BDO's proposed amendments to the draft financial statements

BDO WORK TO COMPLETE

- ▶ Completion of testing over GIA used in the valuation of other land and buildings
- ▶ Completion of testing over coastal defence assets classified as Infrastructure assets
- ▶ Completion of our review of identified fraud instances
- ▶ Completion of use of resources work
- ▶ Completion of subsequent events testing
- ▶ Review of amended draft financial statements
- ▶ Completion of internal quality control reviews
- ▶ Receipt and review of management representation letter
- ▶ Completion of whole of governments accounts review

APPENDIX 1 - NATIONAL PICTURE

 To provide further context for Members we have set out below a summary of the Issues that have contributed to the delay in completion of local authority audits, and the position on audit sign-offs across all local authority audits for all suppliers.

- ▶ Backlog initially created during Covid and lockdown that has not been recovered
- ▶ Enhanced quality requirements following well publicised audit failures within the private sector
- ▶ Implementation of new auditing standards
- ▶ Infrastructure accounting and inadequate historical records for highways and infrastructure spend
- ▶ Increased complexity of group structures, nature of transactions, and asset ownership, including the acquisition of investment property for income generation purposes (though we recognise that this specific point does not apply to the Council)
- ▶ Difficulty recruiting auditors to the sector.

2019/20

Only 45% of 2019/20 local government bodies received an audit opinion by the extended deadline of 30 November 2020 and 44 (9%) had still not received the audit opinion by 31 March 2023.

2021/22

Only 12% of 2021/22 local government bodies received an audit opinion by the extended deadline of 30 November 2022 and 347 opinions (74%) remained outstanding at 31 March 2023.

2020/21

Only 9% of 2020/21 local government bodies received an audit opinion by the extended deadline of 30 September 2021 and 145 (31%) had still not received the audit opinion by 31 March 2023.

Redmond review

Limited progress has been made against the Redmond review recommendations to improve local public audit. The Financial Reporting Council (FRC) has recently taken on the role of shadow system leader and a memorandum of understanding setting out the FRC's responsibilities in this role was agreed with DLUHC in March 2023.



FOR MORE INFORMATION:

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