



THURROCK COUNCIL

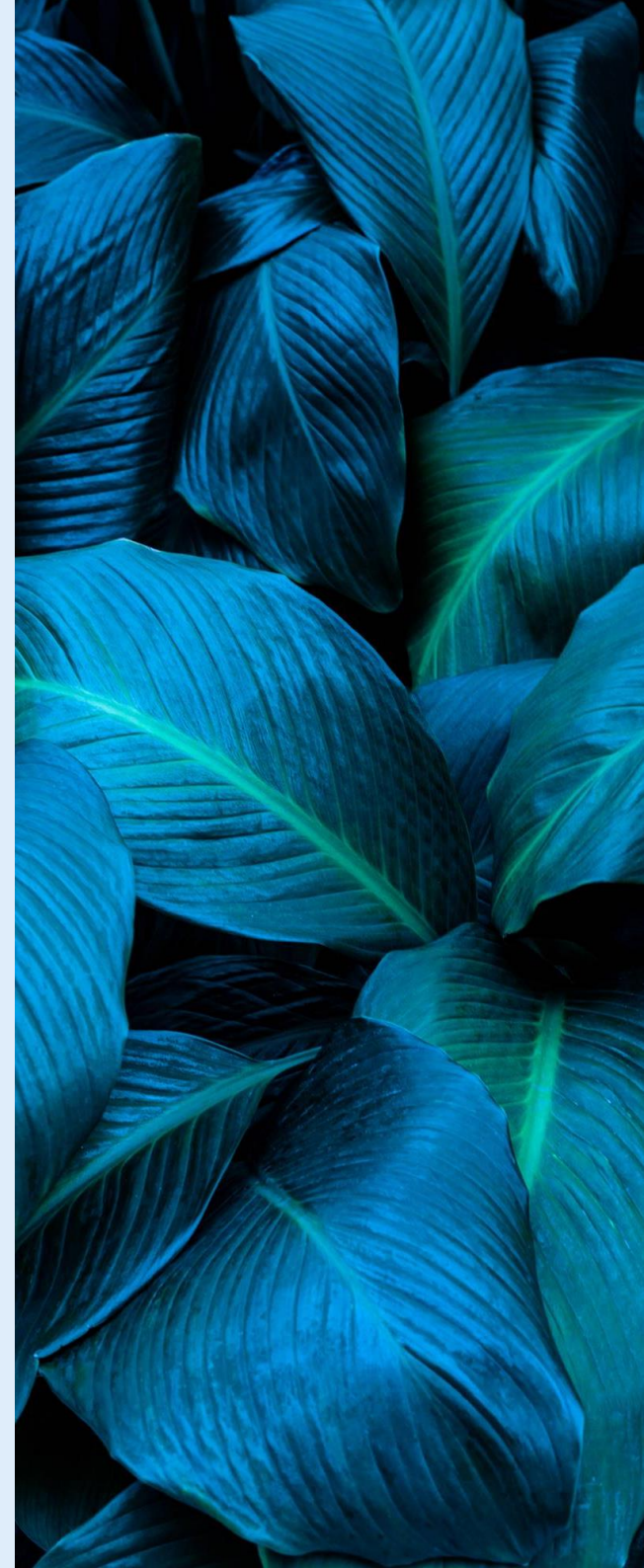
Audit Planning Report for the year ended 31 March 2021

DRAFT revised Audit Planning: Year ended 31 March 2021

Report to the Standards and Audit Committee 23 November
2023

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Welcome

Introduction

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We have pleasure in presenting our Audit Planning Report to the Standards and Audit Committee of Thurrock Council ('the Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ended 31 March 2021, comprising materiality; key audit risks and the planned approach to these; together with the audit timetable.

The original audit plan was issued to the Standards and Audit Committee on 11 March 2021. This audit plan outlines our revised risk assessment taking into account all relevant information that has come to our attention since that date.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the entity during the year under review, the results for the year to date and other required scope changes.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Standards and Audit Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We look forward to discussing this plan with you at the Standards and Audit Committee meeting on 23 November 2023 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

Rachel Brittain, Director

For and on behalf of **BDO LLP**

10th November 2023



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The numbers

Executive summary

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This summary provides an overview of the audit scope and materiality for the year ended 31 March 2021.

Audit scope

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws and appropriate standards and guidance issued by the National Audit Office.

The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes:

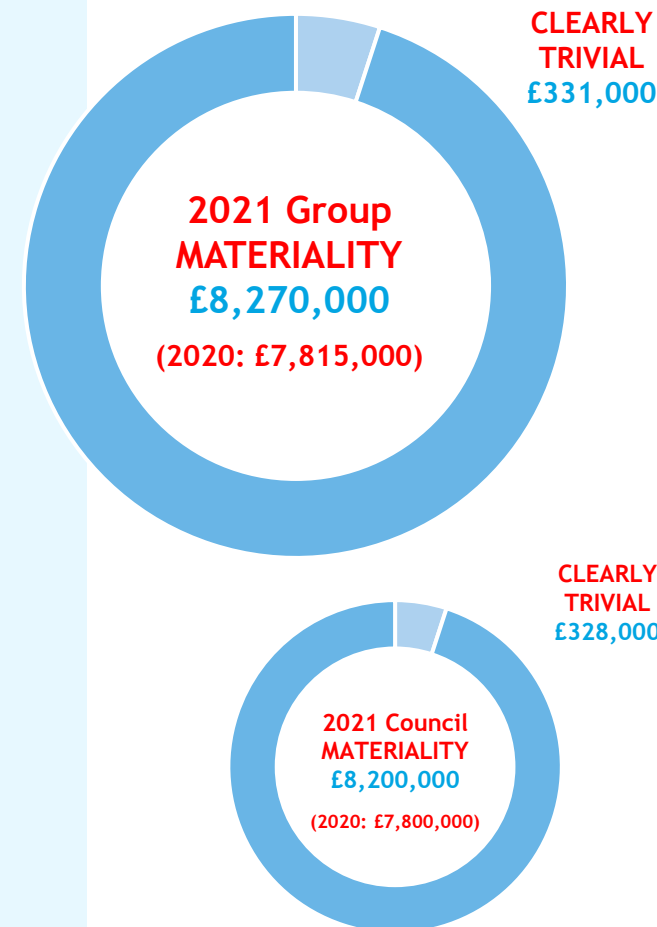
- auditing the parent and group financial statements;
- reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate,
- exercising the auditor's wider reporting powers and duties.

The Code of Audit Practice was updated with effect from 1 April 2020 and as a consequence the scope of the use of resources work has changed for the year ended 31 March 2021. More information on this change is included on page 31.

Materiality

Materiality for the Council and Group is set at 1.75% of gross expenditure for the year (prior year 1.75%). The materiality basis is unchanged from our planning report dated 3rd March 2021, as the changes to our risk assessment identified do not impact considerations around gross expenditure, which is used as the benchmark of our materiality.

Although materiality is the judgement of the audit partner, the Standards and Audit Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.



Independence and fees

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Independence

We confirm that the firm, and the engagement team conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and the IESBA Code of Ethics and are independent of the Council and Group.

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

In relation to the 2020/21 financial year, BDO also provided the non-audit services outlined below. We have concluded these do not give rise to any impacts on independence. The value of non-audit services is low in comparison to audit fees. With regards to any self-review threat, we do not consider there to be any impact on independence.

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

**The audit fee outlined below is as per our original audit plan, however as discussed with management, the audit fee is subject to revision with regards to the increased scope of work to be performed. This will be discussed and agreed with management.*

	Fees (£)		Independence safeguards	Impact on independence
	2021	2020		
Code audit fee	102,967*	102,967		
Additional audit fee: Group consolidation	5,000	5,000		
Total audit fees	107,967	107,967		
Certification of housing benefits subsidy claim	15,700	14,800	The nature and value of non-audit services do not give rise to any threats to independence which require safeguards to be put in place	None
Certification of pooled housing capital receipts return	3,675	3,500		None
Certification of teachers' pension return	7,350	7,000		None
Total non-audit services fees	25,725	25,300		
Total fees	133,692	133,267		

Partner rotation

Independence

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These tables indicate the latest rotation years normally permitted under the independence rules of the FRC’s Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Rachel Brittain Director	1	31 March 2025
Sebastian Evans Senior Manager	1	31 March 2027



Overview

Audit scope and objectives

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Key components of our audit objectives and strategy for the Council are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance the CIPFA Code of Practice on Local Authority Accounting 2020/21 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also: <ul style="list-style-type: none"> ▶ Read and consider the ‘other information’ contained in the Statement of Accounts such as the additional narrative reports. 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. ▶ For the narrative report, we will form an opinion on whether the information given in the other information is consistent with the financial statements and our knowledge obtained in the audit and whether the reports have been prepared in accordance with applicable legal requirements.
Use of Resources	We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
WGA	The NAO have confirmed that this is no longer required.
Additional powers and duties	Where necessary we may be required to: issue a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Standards and Audit Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Standards and Audit Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

Overview of risks

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Our Audit Strategy is built on a risk-based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement (RMM) is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have discussed the changes to the Council systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Group’s activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

Since the issuing of our initial audit plan on 11 March 2021, we have revised our risk assessment based on developments arising.

BDO have received an objection to the draft 2020-21 financial statements in relation to the Council’s borrowings and investments. As part of our revised audit approach, we will address this objection alongside our work carried out in response to risks 7 - 11. Our work in response to these risks will address the lawfulness of the transactions.

Risks 1-6 were included in our initial audit plan, whereas risk 7 has been revised, and risks 8-15 are entirely new risks for our revised audit approach.

Our audit risks can be summarised as follows:

1. **Management override of controls (significant RMM)**
2. **Revenue recognition (significant RMM)**
3. **Expenditure cut-off (significant RMM)**
4. **Valuation of non-current assets (significant RMM)**
5. **Valuation of pension liability (significant RMM)**
6. **Allowance for non-collection of receivables (RMM)**
7. **Classification of investments (significant RMM)**
8. **Valuation of financial instruments measured at fair value through profit and loss (significant RMM)**
9. **Carrying value of financial assets measured at amortised cost (significant RMM)**
10. **Financial instrument disclosures (significant RMM)**
11. **Investment income receipts (significant RMM)**
12. **Minimum revenue provision (significant RMM)**
13. **Infrastructure assets (significant RMM)**
14. **PPE valuations - RAAC (RMM)**
15. **Intangible assets - software as a service (RMM)**



Other areas of consideration

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There are a number of other areas that while not specific audit risks are worthwhile drawing to your attention.

Issue	Consideration
Finance restructure	We understand that the Council is undertaking a restructure of their finance team to ensure that it remains fit for purpose. We would highlight that while we are supportive of the Council wishing to improve its structures, it should consider where corporate knowledge is held within the organisation. As we are dealing with historic positions it is vital that sufficient knowledge remains in the organisations to see complex areas through to their conclusion.
Objection to the financial statements	We have received an objection to the financial statements relating to the Council's borrowing and investment. Auditor responsibilities in relation to objections extend to considering the legality of transactions. Should any issues arise in relation to the legality we will need to consider the impact of these on the financial statements.
Valuation of financial instruments	As at the date of the Audit Planning Report, valuations of the Council's financial instruments have not been performed by the Council's treasury advisors CamdorGlobal Advisors, in advance of the revised accounts being prepared. Once these have been performed, we will assess the processes and controls involved in the valuation process, and raise any deficiencies as required.

Other matters requiring further discussion

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Fraud

Whilst the officers of the Council 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 approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have not been made aware of any actual alleged or suspected incidences of fraud. We request confirmation from the Standards and Audit Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2020/21 under the circumstances.

Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements.

We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

Internal audit

We will review the audit work of the Council's internal audit function, although we do not plan to place reliance on their work in respect of their assessment of control processes. We will use the work of Internal Audit to inform our consideration of the arrangements in place to secure value for money wherever possible.

Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your organisation include VAT legislation, employment taxes, Health and Safety, and the Bribery Act 2010. We will make enquiries of Management and review correspondence with the relevant authorities.

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 approach includes the consideration of related party transactions throughout the audit including making enquiries of management.

Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

Understanding your IT environment

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IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

As part of the audit planning work already completed, we obtained an understanding of the information system, including the related business processes relevant to financial reporting.

We are currently in the process of revisiting our initial assessments to ensure that our audit approach remains valid. We will update you in due course if there are any changes required.



Our Approach

IT Audit Scope and Methodology

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Based on our understanding of your IT control environment and key business cycles, we previously performed procedures over the design and implementation (D&I) of your IT General Controls for the applications and underlying databases, considered to be in scope for the audit. The approach to reviewing IT General Controls is outlined below. We do not anticipate that we will place reliance on IT General Controls through the completion of our audit.

Access management

- ▶ User access provisioning
- ▶ Excessive Access
- ▶ Generic accounts and Privilege access
- ▶ User access de-provisioning
- ▶ User access review



Data processing management

- ▶ Completeness and accuracy of data movement
- ▶ Modification of schedules and jobs
- ▶ Exception handling workflow in case of job/interface failure

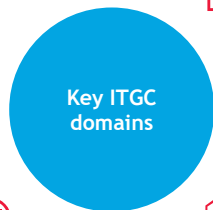
Program changes

- ▶ Change evaluation
- ▶ Change authorisation
- ▶ Existence of different environments
- ▶ Segregation of duties.



Program development

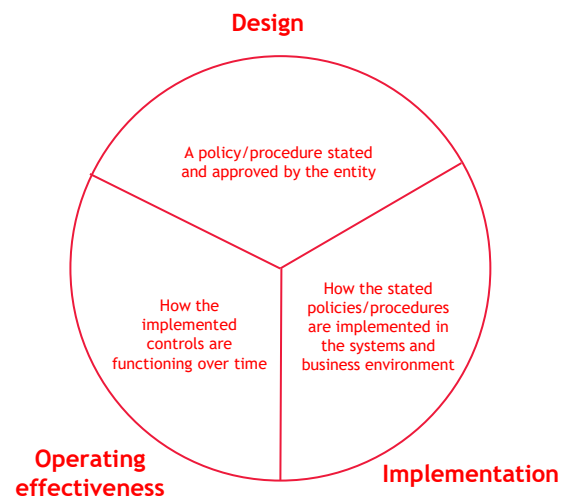
- ▶ Governance over system change, including evaluation of design and testing of controls in the new environment
- ▶ Data migration



Extensive work was completed around ITGCs as part of the planning work already completed. We are in the process of reviewing the work completed, alongside the most up-to-date information and audit requirements, in order to assess whether this will impact on our procedures.

Based on our understanding of your IT environment obtained during initial planning work, we consider the following applications to be in scope for the audit.

Application in scope	Business function
Oracle	Finance, HR, Payroll
Paris	Income processing
Logotech - FAR	Capital
Northgate - Housing	Housing management
Northgate - SX3	Housing benefit and council tax support
Controcc - ASC	Finance recording system for Adult Social Care
Civica Pay	Council income



IT Audit Approach

Audit Data Analytics [ADA]

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Overview

Our bespoke data specialists transform data into a common format ready for analysis as well as run checks for completeness & accuracy of the data.

Analysis is carried out by way of specific data analytics tests (DATs) which are scoped based on the risk areas we have identified.

The result is a work book or a dashboard of aggregated, summarised data relating to the specific accounting cycle.

This allows us to easily access information and drill down as needed, which also allows for checking of anomalies and outliers.

The benefits of these tools are that they can perform a wide range of statistical and analytical procedures, the procedures performed can be logged to provide a clear audit trail of the analysis performed.

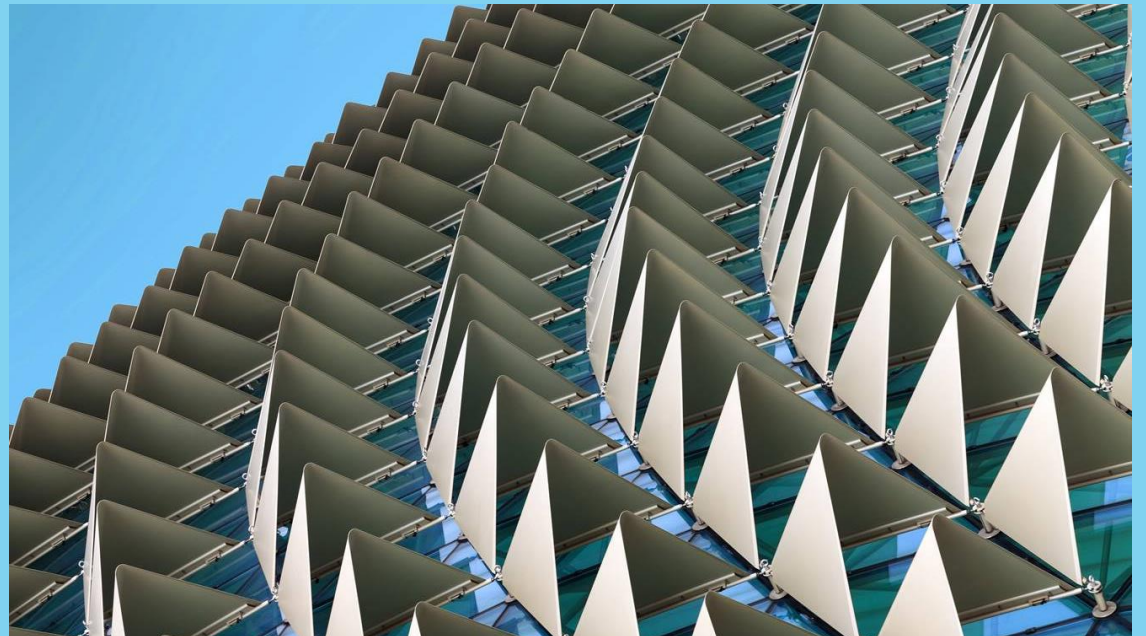
How are we utilising ADA?

Following on from our understanding of business processes and data flows between applications over the Financial Reporting Close Process and Payroll* accounting cycles, we will use data analytics in order to provide assurance over the key business areas, by identifying trends and anomalies, transfers and transformation of data, and re-performance of key calculations.

The table below illustrates the key areas in which data analytics will be used.

*Payroll is dependent on data being available retrospectively required to use the tools.

Area	Narrative
Management Override	Data analysis to be performed around trends in journal postings, in order to identify potential instances of management override of controls.
Payroll	We would ideally like to use data analysis to provide assurance over the accuracy of payroll deductions, however this was not in place when we started the audit, so we will work with management to see if this is possible retrospectively.



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Management override of controls

Risk 1

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	C	E	A	V	P	2021	2020
Management override of controls						N/A	N/A

Risk detail

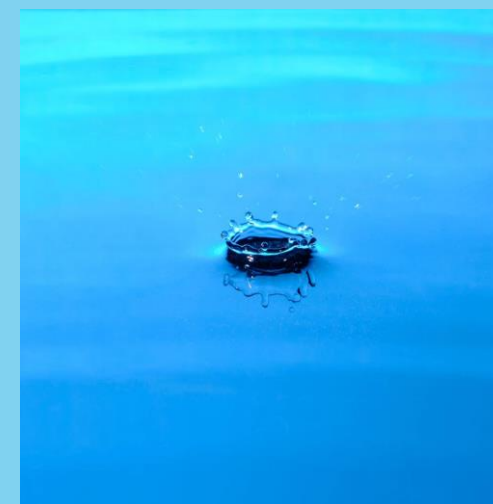
- ▶ ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.
- ▶ Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.
- ▶ There is a specific risk for our revised audit approach in relation to the adjustments raised by management in redrafting the accounts following government intervention, as these are more likely to be subject to manipulation.

Planned audit approach

Our audit procedures will include the following:

- ▶ A review and verification of large and unusual journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT audit specialists to assist with the journal extraction;
- ▶ Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.
- ▶ Review of unadjusted audit differences for indications of bias or deliberate misstatement.
- ▶ Review of adjustments made between the draft accounts issued in 2021, and the redrafted accounts.

● Significant risk
Normal risk
● Fraud risk
● Related controls identified to mitigate risk
Significant Management estimates & judgements
Controls testing approach
● Data analytics testing approach
● Substantive testing approach



Revenue recognition

Risk 2

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	C	E	A	V	P	2021	2020
CIES NCOS Income						£236,115,000	£221,619,000

Risk detail

- ▶ ISA (UK) 240 notes that there is a presumed significant risk resulting from the intentional misstatement of revenue
- ▶ Under auditing standards there is a presumption that income recognition presents a fraud risk.
- ▶ For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of grant income with performance conditions.

Planned audit approach

- ▶ We will test a sample of revenue grants in income appropriate to the risk factor, to documentation from grant paying bodies and check whether the recognition criteria has been met.

● Significant risk
Normal risk
● Fraud risk
● Related controls identified to mitigate risk
Significant Management estimates & judgements
Controls testing approach
Data analytics testing approach
● Substantive testing approach



Expenditure cut-off

Risk 3

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	C	E	A	V	P	2021	2020
CIES NCOS Expenditure (Excluding Payroll)						£229,428,000	£221,619,000

Risk detail

- ▶ For public sector bodies there is a risk of fraud related to expenditure recognition, which we assess to only be relevant to cut-off around the year end.
- ▶ Under auditing standards there is a presumption that income recognition presents a fraud risk, however, for net-spending bodies in the public sector the risk of fraud related to expenditure is more relevant.
- ▶ There is a risk that material misstatement may occur through the manipulation of expenditure recognition. We assess this risk is only relevant to the cut-off of expenditure around year end.

Planned audit approach

- ▶ We will test expenditure transactions around year end to a lower testing threshold than would have otherwise been applied, checking that expenditure is recognised in the correct accounting period.

● Significant risk
Normal risk
● Fraud risk
● Related controls identified to mitigate risk
Significant Management estimates & judgements
Controls testing approach
Data analytics testing approach
● Substantive testing approach



Valuation of non-current assets

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	C	E	A	V	P	2021	2020
Property, Plant and Equipment						£1,166,443,000	£1,122,414,000
Heritage Assets						£32,370,000	£22,851,000

Risk detail

- ▶ The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.
- ▶ Local authorities are required to ensure that the carrying value of land, buildings and dwellings is not materially different from the current value (operational assets) or fair value (surplus assets and assets held for sale) at the balance sheet date.
- ▶ There is a risk over the valuation of these assets due to the high degree of estimation uncertainty and where updated valuations have not been provided for a class of assets at the year end.

Planned audit approach

Our audit procedures will include the following:

- ▶ Reviewing and critically assessing 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.
- ▶ Verifying that the basis of valuation for assets valued in year is appropriate based on their usage.
- ▶ Verifying the accuracy and completeness of information provided to the valuer, such as rental agreements and sizes.
- ▶ Critically assessing assumptions used by the valuer and movements against relevant indices for similar classes of assets.
- ▶ Following up valuation movements that appear unusual.
- ▶ Verifying that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

● Significant risk
Normal risk
Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
Data analytics testing approach
● Substantive testing approach



Valuation of pension liability

Risk 5

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	C	E	A	V	P	2021	2020
Pensions and Post Employment Benefits						£195,941,000	£158,894,000

Risk detail

Assets

- ▶ There is a risk around the valuation of scheme assets with unobserved inputs and which are therefore fair value 'Level 3' - this includes property, private equity, infrastructure and other managed funds. There are varying other assumptions applied by the fund manager.

Liabilities

- ▶ The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.
- ▶ 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.

Planned audit approach

Our audit procedures will include the following, relying on the Scheme auditor for assurance where possible:

Assets

- ▶ Challenge over the reasonableness of the assumptions used.
- ▶ Agree to the latest audited asset valuations with roll forward to 31 March 2021.

Liabilities

- ▶ Agreeing the disclosures to the information provided by the pension fund actuary.
- ▶ Assessing the competence of the management expert (actuary).
- ▶ Challenging the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.
- ▶ Agreeing a work programme with the pension fund auditor and requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data.
- ▶ Checking that any significant changes in membership data have been communicated to the actuary.

● Significant risk
Normal risk
Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
Data analytics testing approach
● Substantive testing approach



Allowance for non-collection of receivables

Risk 6

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	C	E	A	V	P	2021	2020
Short term debtors						£78,067,000	£77,685,000

Risk detail

- ▶ There is a risk over the valuation of the allowance for the non-collection of receivables.
- ▶ The risk is specifically in relation to incorrect assumptions or source data being used, or an inappropriate methodology is applied.
- ▶ IFRS 9's Expected Credit Loss model applies to financial assets but does not include amounts receivable under statute such as council tax and business rates receivable. Statutory receivables are required by the CIPFA Code to apply an impairment allowance using the incurred loss model updated for conditions at balance sheet date.

Planned audit approach

Our audit procedures will include the following:

- ▶ We will review the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears and, for receivables classified as financial instruments, includes appropriate assumptions for expected credit losses.

Significant risk
● Normal risk
Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
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● Substantive testing approach



Classification of investments

Risk 7

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	C	E	A	V	P	2021	2020
Investments						£46,162,000	£88,995,000
Long term investments						£65,797,000	£153,841,000
Long term debtors						£925,150,000	£817,918,000
Short term debtors						£78,067,000	£77,685,000

Risk detail

- ▶ There is a risk around the balance sheet line classifications of investments made in the Council in debt and equity, and whether these are appropriate based on the nature and form of the investment.
- ▶ The risk is increased by these investment balances being highly material.
- ▶ There is also a presentational risk between current and non-current.
- ▶ Under IFRS 9, investments in debt should be held at amortised cost, whereas investments in equity will by default be held at fair value through profit and loss. There is a risk as differing measurement approaches may have a material effect on the carrying amount of investments.

Planned audit approach

- Our audit procedures will include the following:
- ▶ We will perform procedures to confirm the nature of the investment (eg debt or equity), in order to assess whether the investment is classified on the correct balance sheet line per the relevant accounting standards, and by extension whether the correct measurement technique (FVTPL vs amortised cost) has been applied.

● Significant risk
Normal risk
Fraud risk
Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
Data analytics testing approach
● Substantive testing approach



Valuation of financial instruments measured at FVTPL

Risk 8

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	C	E	A	V	P	2021	2020
Investments						£46,162,000	£88,995,000
Long term investments						£65,797,000	£153,841,000
Long term debtors						£925,150,000	£817,918,000
Short term debtors						£78,067,000	£77,685,000

Risk detail

- ▶ There is a risk over the valuation of financial instruments designated at fair value through profit and loss, these are valued using techniques which have a high level of estimation uncertainty.

Planned audit approach

- Our audit procedures will include the following:
- ▶ Engaging our valuations team to assess the reasonableness of the assumptions applied.
 - ▶ Agree input data to source documentations.

● Significant risk
Normal risk
Fraud risk
Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
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Carrying value of financial assets measured at amortised cost

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	C	E	A	V	P	2021	2020
Investments						£46,162,000	£88,995,000
Long term investments						£65,797,000	£153,841,000
Long term debtors						£925,150,000	£817,918,000
Short term debtors						£78,067,000	£77,685,000

Risk detail

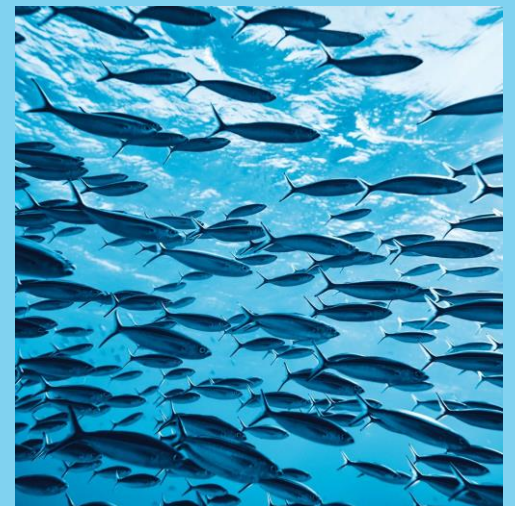
- ▶ There is a risk around the carrying value of financial assets measured at amortised cost. Under IFRS 9, financial assets measured at amortised cost will be amortised using an effective interest rate, and the coupon paid on the investment.
- ▶ The effective interest rate is subject to estimation uncertainty.
- ▶ Additionally, under IFRS 9, impairment is based on a model of expected credit loss, based on the present value of lifetime expected credit losses. This involves estimation uncertainty around what the cash shortfalls would be.

Planned audit approach

Our audit procedures will include the following:

- ▶ Engaging our valuations team to assess the reasonableness of the assumptions applied.
- ▶ Agree input data to source documentations.
- ▶ Verify that financial assets measured at amortised cost have been impaired where appropriate, in accordance with the IFRS 9 expected credit loss model.

- Significant risk
- Normal risk
- Fraud risk
- Related controls identified to mitigate risk
- Significant Management estimates & judgements
- Controls testing approach
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- Substantive testing approach



Financial instrument disclosures

Risk 10

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	C	E	A	V	P	2021	2020
Financial instrument disclosures						N/A	N/A

Risk detail

- ▶ There is a risk around the financial instrument disclosures. *IFRS 7 Financial Instruments: Disclosure* includes extensive disclosure requirements to ensure that users of the financial statements can evaluate:
 - ▶ The significance of financial instruments for the entity’s financial position and performance.
 - ▶ The nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.
- ▶ Therefore there is a risk around whether the disclosures made by the Council are adequate and compliant with the requirements of IFRS 7.
- ▶ Thurrock Council specifically is exposed to refinancing risks and interest rate risk exposure around short term borrowing used to finance the investments, and therefore there is risk around these factors being adequately disclosed.

Planned audit approach

- Our audit procedures will include the following:
- ▶ Review disclosures prepared by the Council.
 - ▶ Verify that they are compliant with the requirements of IFRS 7.
 - ▶ Vouch figures disclosed to supporting documentation.
 - ▶ Ensure that the disclosures adequately capture the nature and extent of risks arising from financial instruments to which the Council is exposed.

● Significant risk
Normal risk
Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
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Investment income receipts

Risk 11

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	C	E	A	V	P	2021	2020
CIES Financing and Investment Income						£46,188,000	£49,928,000

Risk detail

- ▶ There is a risk around the completeness, existence and accuracy of the Council’s investment income, linked to the issues raised around the valuation of the Council’s investments.

Planned audit approach

Our audit procedures will include the following:

- ▶ We will verify the existence of investment income by tracing receipts to supporting documentation and verifying legitimacy in accordance with investment agreements.
- ▶ We will verify accuracy by tracing the value recorded to supporting documentation.

● Significant risk
Normal risk
● Fraud risk
● Related controls identified to mitigate risk
Significant Management estimates & judgements
Controls testing approach
Data analytics testing approach
● Substantive testing approach



Minimum revenue provision

Risk 12

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	C	E	A	V	P	2021	2020
Financial statement preparation						N/A	N/A

Risk detail

- ▶ There is a risk over whether the minimum revenue provision applied by the Council is compliant with the relevant guidance, is appropriate and prudent, and takes into account any recognised impairment of the investments in other entities.
- ▶ There is also a risk over the accuracy of the MRP calculation, and over whether all relevant inputs are included per the guidance.

Planned audit approach

Our audit procedures will include the following:

- ▶ We will review the MRP policy applied by the Council and verify that it is compliant with the requirements of the guidance.
- ▶ We will review the calculations of MRP, and verify that they are accurate.
- ▶ We will review the inputs to the MRP calculation and verify that all relevant inputs are included per the guidance.

● Significant risk
Normal risk
Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
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● Substantive testing approach



Infrastructure assets

Risk 13

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	C	E	A	V	P	2021	2020
Property, plant and equipment						£1,166,443,000	£1,122,414,000

Risk detail

- ▶ There is a risk around the valuation of the Council’s infrastructure asset balance. This is in relation to the national issue identified around local authority accounting for infrastructure assets.
- ▶ The result of this is that there is a valuation risk, due to potential historical information deficits, and the records held by highway teams not being suitable for accounting purposes.

Planned audit approach

Our audit procedures will include the following:

- ▶ Verify that infrastructure assets are accounted for appropriately in accordance with the Statutory Instrument, and the update to the Code (accompanied by CIPFA bulletin 12), issued in 2022.
- ▶ Verify that inputs to the valuation of infrastructure assets can be verified to source documentation. Specifically we will verify that useful economic lives applied to infrastructure asset components are reasonable, as this is an area of specific judgement.

● Significant risk
Normal risk
Fraud risk
● Related controls identified to mitigate risk
● Significant Management estimates & judgements
Controls testing approach
Data analytics testing approach
● Substantive testing approach



PPE Valuations - RAAC

Risk 14

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	C	E	A	V	P	2021	2020
Property, plant & equipment						£1,166,443,000	£1,122,414,000

Risk detail

- ▶ There is a risk around the valuation of PPE in relation to the well-publicised issues identified around the use of reinforced autoclaved aerated concrete (RAAC) within buildings. The existence of RAAC in buildings owned by the council may impact the valuation of items of PPE held by the Council.

Planned audit approach

Our audit procedures will include the following:

- ▶ We will review the Council’s procedures for identifying and evaluating RAAC within its buildings and assessing the impact on the valuation of those buildings.

Significant risk
● Normal risk
Fraud risk
● Related controls identified to mitigate risk
Significant Management estimates & judgements
Controls testing approach
Data analytics testing approach
● Substantive testing approach



Intangible assets - software as a service

Risk 15

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	C	E	A	V	P	2021	2020
Intangible assets						£9,686,000	£6,162,000

Risk detail

- ▶ There is a risk in relation to ‘software as a service’. This risk is specifically in relation to distinction between costs to be expensed, and those to be capitalised as intangible assets, as disclosed in the April 2021 IFRIC agenda decision.

Planned audit approach

Our audit procedures will include the following:

- ▶ Verify for a sample of intangible asset additions that the capitalisation is appropriate, and that it should not have been expensed per the software as a service IFRIC agenda decision.
- ▶ For our expenditure testing, verify that the expenditure is revenue rather than capital.

Significant risk
● Normal risk
Fraud risk
● Related controls identified to mitigate risk
Significant Management estimates & judgements
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Use of Resources

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New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

In addition to new assessment criteria and commentary requirements, the scope of the new Code also considerably increases auditors’ requirements for planning documentation and management should expect an increase in requests for discussion and evidence to facilitate this requirement.

Risk of Significant Weakness

We are required to report the results of our risk assessment to those charged with governance, including additional work planned in respect of any identified risks of significant weakness, and to keep risk assessment under continual review, with any changes again communicated to those charged with governance.

Based on our review of the findings of the Best Value Inspection, we have identified risks around significant weaknesses in the following areas:

- **Financial sustainability** - the financial position of the Council and the impact on its medium and long term financial planning. This specifically relates to the shortfalls in the budget and MRP to cover losses on investments.
- **Governance** - how the Council makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This specifically relates to the issues identified in the Best Value Inspection report relating to decision-making around investments.

Going Concern

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Officers' responsibilities

It is the officers' responsibility to make an assessment of the Council's ability to continue as a going concern to support the basis of preparation for the financial statements and disclosures in the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the officers' approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

Audit responsibilities

Our responsibilities in respect of going concern are:

- a) To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements
- (b) To report in accordance with ISA (UK) 570.

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Council's financial performance including forecasting and budgeting processes and the Council's risk assessment process. We will evaluate:

- The Council's method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other
- The Council's plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances
- The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

Irregularities (including fraud)

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We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error. We design audit procedures to respond to the risk of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the Council's financial statements and may include, where appropriate:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations
- Enquiries of management, those charged with governance and the Council's legal advisers
- Agreement of the financial statement disclosures to underlying supporting documentation
- Review of minutes of Council and Cabinet meetings throughout the year and of correspondence with regulatory authorities
- Written representations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.



Accounting estimates

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Revision to ISA (UK) 540 means that we may need to update our approach to the audit of accounting estimates - including confirmation and documentation of our understanding of the Council's estimation process.

We will need to obtain an understanding of how you control your estimation process including not only the design and implementation of the process, but also the policies and procedures you put in place to satisfy yourself that each step in the process is properly applied, and that the resulting accounting estimates are reasonable.

For significant accounting estimates, particularly those that are complex or where there is a high degree of estimation uncertainty we will also make enquiries about how you:

- Make those responsible for deriving or changing your accounting estimates aware of relevant significant transactions, conditions or events
- Review the outcome(s) of previous accounting estimates and respond to the results of that review
- Identify and comply with the relevant requirements in the applicable financial reporting framework regarding your accounting estimates and related disclosures, including how they are affected by complexity and your judgment
- Account for regulatory factors relevant to the Council's accounting estimates; including, when applicable, regulatory frameworks related to prudential supervision
- Identify the need for, and apply, specialised skills or knowledge related to accounting estimates, including with respect to the use of a management's expert
- Identify and address risks related to accounting estimates through your risk assessment process

- Identify relevant methods (including models), assumptions and data, and the need for changes in them, and from those identified, select those to apply
- Address the degree of estimation uncertainty in selecting your final point estimates
- Describe in your financial statements matters related to your process for deriving your accounting estimates, and matters related to the degrees of estimation uncertainty underlying your accounting estimates
- Ensure there is oversight and governance in place over management's financial reporting process relevant to accounting estimates.

Under ISA (UK) 540 (revised) our audit approach will involve a more granular risk assessment relating to each significant estimate and separate consideration of the methods (or models) applied in calculating the estimate, the nature, source and reliability of data used and the significance, consistency and appropriateness of assumptions made.

We will also request written representations from you regarding the reasonableness of the methods, significant assumptions and the data used in determining the monetary amounts of accounting estimates, including the related disclosures, in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21.

FRC Ethical Standard (December 2019)

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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 as applicable to our audit of the Council.

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.
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.

Independence

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

We have embedded the requirements of the auditing standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads 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 2021.

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 and are independent of the Council and the Group.

We previously reported that one of our colleagues at BDO had declared that they have a close family member employed by the Council. This individual is no longer employed by BDO, and does not therefore present an independence threat going forward.

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

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

Non-audit services

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 in the fees table on page 5.

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

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Those Charged with Governance

References in this report to Those Charged With Governance are to the Members of 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 Standards and Audit Committee.

In communicating with the Standards and Audit Committee, representing TCWG of the Group, we consider TCWG of subsidiary entities to be informed about matters relevant to their subsidiary. Please let us know if this is not appropriate.

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 will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Planning Report

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the Report signed and dated prior to issue of the Audit Opinion.

Other information

Audit requirements - other information in the annual report

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As we note in the 'Overview - Audit Scope and Objectives' section, we have responsibilities in relation to going concern and the other information (including statutory other information) in the annual report.

We are aware that the below information was initially provided when planning was completed in 2021, however revised information and assessments will be required following the revision of the audit approach.

In order to allow us to fulfil these obligations we ask that you please make available to us the following information as soon as is practicable:

Other Information	A final draft of the other information with relevant supporting documentation, sufficiently far in advance of the date on which the audit report is expected to be signed to give us adequate time to complete our work.
Information not directly derived from the financial statements or accounting records	For information not directly derived from the financial statements or otherwise from the accounting records of the Council, details of the source of that information.
Principal Risks - the Directors assessment of risks	A copy of the risk register or equivalent together with details of Directors' consideration of risks including completeness of risks recorded in the register.
Directors' assessment of going concern	Detailed cash flow forecasts covering a period of at least 12 months from the date of approval of the financial statements, together with details of key assumptions, consideration of sensitivity to reasonably possible business risks and variations in those assumptions and the directors' overall conclusions.

For more information:

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

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