

Thurrock Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



The Members
Thurrock Council
Civic Offices
New Road
Grays
Essex
RM17 6SL

19 October 2015

Dear Members

Annual Audit Letter 2014/15


The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 Audit Results Report to the 24 September 2015 Standards and Audit Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for Thurrock Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully



Debbie Hanson
Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 2 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Thurrock Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 30 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 30 September 2015. We had no issues to report.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was presented to the Standards and Audit Committee on 24 September 2015.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

We issued our certificate on 30 September 2015

In December 2015, we will also issue a report to those charged with governance of the Council summarising the certification of grant claims and returns work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 30 September 2015.

Our detailed findings were reported to the 24 September 2015 Standards and Audit Committee.

The quality of the process for producing the accounts and supporting working papers continues to improve. However, to facilitate a more timely process for the production and audit of accounts in future years, further improvements are needed.

The main issues identified as part of our audit were:

Significant risk 1: Management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

Findings:

We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing. Our testing did not identify any expenditure which had been inappropriately capitalised.

Other key findings:

Change in accounting for schools

In December 2014, CIPFA/LASAAC issued LAAP Bulletin 101 on Accounting for Non-Current Assets Used by Local Authority Maintained Schools. This bulletin provided further guidance on the practical application of the Accounting Code of Practice to non-current assets used by schools, where the assets are owned by a third party.

The Council considered the nature of the agreements in place locally for each of their schools to determine the appropriate accounting approach and whether the land and buildings should be recognised in the Council's accounts.

Our work confirmed that the Council's assessment and treatment of Local Authority maintained schools was reasonable.

Uncorrected misstatements in the accounts

We identified one misstatement within the draft financial statements, which management chose not to adjust. This related to an invoice for expenditure on the construction of new housing which was received in April for work done in 2014/15 which had not been accrued for in the 2014/15 financial statements. We extended out testing to review all construction

invoices received in April and did not find any further issues. The value of the invoice was £0.879 million and we therefore concluded that the error was not material to the presentation and disclosures of the financial statements. Management, in agreement with the Standards and Audit Committee provided a rationale as to why this misstatement was not corrected.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2015.

We noted the following as part of our audit:

Arrangements to secure financial resilience: significant risk

Our Audit Plan issued on 2 March 2015, identified a significant risk in relation this criteria. The risk reflects the scale of the financial challenges and budget gap faced by the Council over the next three to four years, due to loss of Central Government funding and pressures from inflation, demographics and the impact of new legislation.

To address this risk, we undertook a more detailed review of the Council's MTFs and the key assumptions within this. We also looked at the level and planned use of reserves, the Council's track record in delivering previous budgets and savings plans, as well as progress on addressing the budget gaps identified in the current MTFs.

Findings:

The Council has continued to take proactive steps to identify savings and income generation opportunities, as demonstrated by the formulation of the Budget Review Panel and Alternative Delivery Model Group. The Total Budget Review will also identify areas of spend which can be subject to appropriate scrutiny and ultimately decisions on whether or not they should continue. The Council is also looking at ways of generating income that support policy objectives. The establishment of Council's Housing Company, Gloriana, is an example of such an initiative.

The Council identified the termination of the SERCO contract for the provision of support services as a key element of their strategy to reduce the budget gap in future years. The latest MTFs factors in these savings, and identifies a cumulative gap of £14.2 million over the next three years (2015/16 to 2017/18). Further efficiencies, income or savings will therefore be required to bridge this remaining gap. The Council has started to take action to reduce this gap.

There remain a number of risks to the Council's budget, the most significant being the uncertainty of future savings. However, the Council has taken positive action to address the challenges it faces and has been prudent in a number of the assumptions within the MTFs. The MTFs update includes a net service reduction of £3.8m in 2016/17 with further savings required to close the remaining £3.4 million deficit.

The MTFS assumes reductions in earmarked reserves (£3.5 million) after 2015/16 and while a reduction hasn't been assumed in the general fund reserves (£8 million), these could be used if there were robust reasons. These balances provide little headroom for unexpected financial pressures considering the current minimum level of general fund reserves is £8 million.

The MTFS recognises that there is more to do to meet the future financial challenges. There is inherent volatility in the MTFS, which necessarily includes a number of key assumptions and projections. The Council must therefore continue with its efforts to identify potential savings to ensure it is well placed to meet future challenges.

On the basis of the work we have undertaken, we concluded that the Council's arrangements to secure financial resilience are adequate.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Standard and Audit Committee on 24 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue our Annual Certification report for 2014/15 in December 2015.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Council about any significant deficiencies in internal control we find during our audit.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. The controls tested were for accounts payable, accounts receivable, schools balances and the housing benefits systems. We are not expressing an opinion on the overall effectiveness of internal control.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

Description

Highways Network Asset (formerly Transport Infrastructure Assets):

The Invitation to Comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost. This is a change from the existing requirement to account for these assets under Depreciated Historic Cost. This change is to be effective from 1 April 2016.

This requirement is not only applicable to highways authorities, but to any local government bodies that have assets which fall into the definition. This could include, for example, footways and cycle ways, housing revenue accounts (HRA) infrastructure, unadopted roads on industrial or HRA estates, and street furniture.

This is likely to be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.

Impact

CIPFA have produced LAAP bulletin 100, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the Code of Practice on Transport Infrastructure Guidance Notes (May 2015) and ITC (July 2015).

The Council will need to demonstrate it has assessed the impact of these changes and undertaken work to:

- Determine the completeness of base information, working closely with highways and other relevant departments.
- Ensure that valuation information is appropriate to the Council, and that national valuation indicators are not used without consideration of their appropriateness locally.
- Consider the Impact for the HRA or non-highways General Fund

If the impact of this change in accounting policy is material, the Council would also need to restate the balances for these assets as at 1 April 2015.

The Better Care Fund (BCF)

The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. From the 1 April 2015 BCF has been set up as pooled budget between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled fund to jointly commission or deliver health and social care services at a local level.

Although local authorities, CCGs and NHS providers have experience of pooled budgets and established joint commissioning arrangements, pooled arrangements under BCF are likely to be on a much larger scale. Nationally the fund is comprised of a number of existing funding streams and will involve a minimum NHS spend of £3.8 billion together with other grant funding streams historically

Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool.

In October 2014 HFMA/CIPFA produced "Pooled Budgets and the Better Care Fund" which provides more detailed guidance on the governance and finance issues underpinning the operation of a pooled budget and the associated risks and challenges faced by local government and NHS partners.

Thurrock's Better Care Fund Plan was submitted on 19 September 2014 and

Description

administered by local authorities. The detailed form of local pooled arrangements is not prescribed and has needed to be agreed between the partners.

Impact

focuses on people 65 years-old and over who are most at risk of admission to hospital or residential care.

Earlier deadline for production and audit of the financial statements from 2017/18

The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.

As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.

These changes provide challenges for both the preparers and the auditors of the financial statements.

The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year end closure processes.

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