



# TENDRING DISTRICT COUNCIL

Annual Audit Letter

Year ended 31 March 2019

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# EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2019.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

## Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the Council's financial statements; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**BDO LLP**

30 August 2019

## Audit conclusions

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Audit area	Conclusion
Financial statements	Unmodified opinion
Use of resources	Unmodified conclusion
Certificate of completion of the audit	Issued on 31 July 2019

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We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

We issued our audit opinion on the financial statements and use of resources conclusion on 31 July 2019.

# FINANCIAL STATEMENTS

## Audit opinion on the financial statements

We issued an unmodified audit opinion on the financial statements. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

## Final materiality

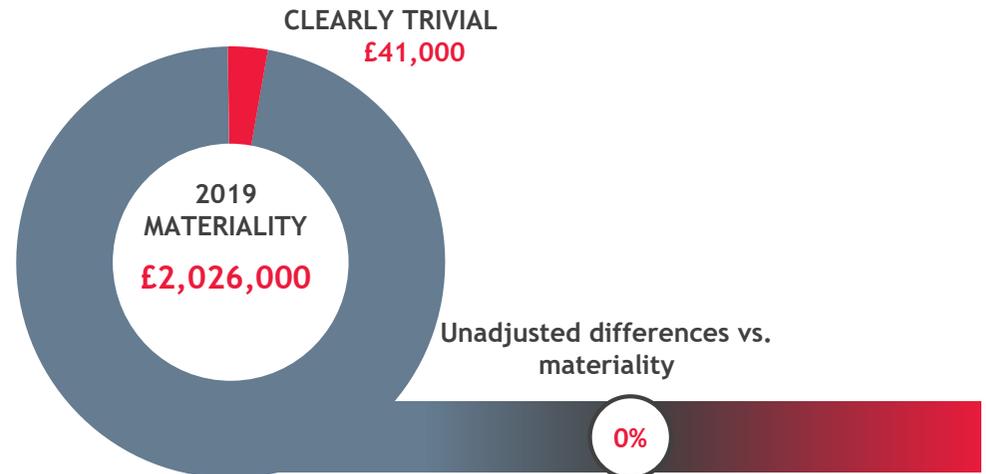
Materiality was calculated at £2,026,000 based on a benchmark of 1.75% of gross expenditure.

## Material misstatements

We did not identify any material misstatements.

## Unadjusted audit differences

We did not identify any misstatements above a trivial level that were not adjusted for.



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# FINANCIAL STATEMENTS

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

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Risk description	How the risk was addressed by our audit	Results
Management override of controls	We carried out the following planned audit procedures: <ul style="list-style-type: none"><li>• Reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation;</li><li>• Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and</li><li>• Reviewed any unadjusted audit differences for indications of bias or deliberate misstatement.</li></ul>	No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias.
Expenditure recognition	We carried out the following planned audit procedures: <ul style="list-style-type: none"><li>• Carried out testing of an increased sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end has been recorded.</li></ul>	Our testing on expenditure cut off did not identify any missing or incorrectly treated expenditure.

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# FINANCIAL STATEMENTS

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Risk description	How the risk was addressed by our audit	Results
Property, plant and equipment and investment property valuation	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"><li>• Reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we can rely on the management expert;</li><li>• Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;</li><li>• Reviewed accuracy and completeness of asset information provided to the valuer such as floor sizes; and</li><li>• Reviewed assumptions used by the valuer for reasonableness and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual.</li></ul>	<p>From our review of the instructions provided to the external valuer and assessment of the expertise of the valuer, we were satisfied that we can rely on this work.</p> <p>We reviewed a sample of in-year revaluations and we were satisfied that the valuation bases used are appropriate.</p> <p>Our review of the accuracy and completeness of information provided to the actuary did not identify any issues.</p> <p>We were satisfied that the overall movement in property values in respect of council dwellings, other land and buildings and investment properties was in line with relevant market indices.</p>

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# FINANCIAL STATEMENTS

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Risk description	How the risk was addressed by our audit	Results
Valuation of pension assets and liabilities	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"><li>• Reviewed skills and expertise of the actuary in order to determine if we can rely on the management expert;</li><li>• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;</li><li>• Checked whether any significant changes in membership data have been communicated to the actuary;</li><li>• Obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary;</li><li>• Obtained assurance from the auditor of the pension fund over the reasonableness of the valuation of pension fund assets at 31 March 2019;</li><li>• Agreed the disclosures to the information provided by the pension fund actuary; and</li><li>• Reviewed the impact of GMP and McCloud adjustments to the financial statements of the Council to ensure that additional liabilities have appropriately been recognised in the financial statements.</li></ul>	<p>Following publication of the Council’s unaudited 2018/19 Statement of Accounts, the government’s request for an appeal relating to the McCloud case was refused by the Supreme Court. While the impact on the LGPS is unknown, there is sufficient information to calculate a reasonable estimate of the liability. The Council requested the actuary to prepare updated information recognising the impact of the judgements, resulting in an increase in both past service cost and the net pension liability of £1,128k. The financial statements were updated to reflect the revised information provided by the actuary.</p> <p>In all other respects, the results of our testing were satisfactory.</p>

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# USE OF RESOURCES

## Audit conclusion on use of resources

We issued an unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We set out below the risk that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable resource deployment	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"><li>Reviewed the assumptions used in the long term financial forecast and assessed the reasonableness of the cost pressures and the amount of Government grant reductions applied;</li><li>Monitored the delivery of the budgeted savings in 2018/19 and reviewed the plans to reduce services costs and increase income from 2019/20 by reviewing a sample of savings plans; and</li><li>Reviewed the strategies to close the budget gap after 2019/20.</li></ul>	<p>For 2019/20 the Council's net budget requirements is £13,557k. This will be met by council tax requirements of £7,955k, business rates income of £4,470k, revenue support grants £422k and collection fund surplus of £710k. Our review identified that the funding sources used within the budget are reasonable. We also reviewed the cost pressures and estimates of fees and charges and other income amounts within the budget and these appropriately reflected the known and expected positions.</p> <p>The Council's long term financial plans show that it will have a cumulative deficit of £3,283k over the five year period from 2020/21 to 2024/25 and then will have surpluses of £142k and £424k in the following two years. These figures are after the adjustments for planned use of reserves. The Council's savings target within the long term plan is £300k and the Council has identified savings plans worth £328k for 2019/20 all of which are on going or recurring.</p> <p>Our review of the MTFs assumptions identified that these adequately reflect demographic and inflationary cost pressures, pay awards and other known cost pressures. The assumptions around funding sources are reasonable and reflect published information and Government announcements.</p> <p>The Council's overall outturn position for 2018/19 was a surplus of £11,395k. This is because a number of projects which were planned for 2018/19 have been carried forward to future years, and the value of these projects was £9,762k.</p> <p>At 31 March 2019 the Council had General Fund balance of £31.2 million (including earmarked reserves of £27.2 million), HRA balance of £8.8 million, major repairs reserve £4.8 million and capital receipts reserve of £6.3 million, thus total usable reserves of £51.1 million.</p> <p>We are satisfied that the Council had adequate arrangements for setting and monitoring financial budgets. While there is a recognised funding gap in the long term plan, we are satisfied that the Council is making appropriate arrangements to manage this in a way that will ensure it continues to remain financially sustainable.</p>

# REPORTS ISSUED AND FEES

## Fees summary

	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
<b>Audit fee</b>			
• Code audit fee: financial statements and use of resources	45,205	45,205	59,354
<b>Non-audit assurance services</b>			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	<sup>(2)</sup> TBC	<sup>(1)</sup> 7,000	16,027
• Pooling of housing capital receipts return	<sup>(2)</sup> TBC	2,500	2,800
Fees for other non-audit services	Nil	Nil	Nil
<b>Total fees</b>	<b>TBC</b>	<b>54,705</b>	<b>78,181</b>

<sup>(1)</sup> The certification fee for Housing Benefit subsidy is on the basis that the Council performs the initial testing and we will re-perform. This also assumes three or less 40+ detailed testing during the year.

<sup>(2)</sup> Work on 2018/19 housing benefit subsidy claim and pooling of housing capital receipts return has not yet been undertaken.

## Communication

Reports	Date	To whom
Fee letter	26 April 2018	Chief Executive and Head of Finance, Revenues and Benefits
Audit plan	28 March 2019	Audit Committee
Audit completion report	29 July 2019	Audit Committee
Annual audit letter	30 August 2019	Head of Finance, Revenues and Benefits

FOR MORE INFORMATION:

Aphrodite Lefevre  
Director

t: +44(0)1603 756909  
m: +44(0)7715 487411  
e: Aphrodite.Lefevre@bdo.co.uk

Nuwan Indika  
Manager

t: +44(0)1473 320807  
m: +44(0)7966 243886  
e: Nuwan.Indika@bdo.co.uk

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