

Harlow District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 "Terms of Appointment (updated 23 February 2017)" issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Harlow District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 6 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 September 2017.

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Suresh Patel

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose and responsibilities



Purpose and responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 6 September 2017 Audit and Standards Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we presented to the Standards and Audit Committee meeting on 8 March 2017 and is conducted in accordance with the National Audit Office's (NAO) 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the NAO.

As auditors we are responsible for:

- ▶ Expressing an opinion on the 2016/17 financial statements; and on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the NAO on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. 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 putting in

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it 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 NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the NAO and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported at the 6 September 2017 Audit and Standards Committee meeting. The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial valuation and found no indication of management bias in these estimates. Our work on the property valuations has been completed and we found no indication of management bias to the balances presented within the financial statements.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any material instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

Other Key Findings	Conclusion
<p>Valuations - reliance on experts</p> <p>We identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations. These areas are both highly material balances in the Council's accounts which are based on estimates and professional judgement.</p> <p>In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.</p> <p>We have also considered the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area.</p>	<p>Pensions: We have assessed and are satisfied with the competency and objectivity of the Council actuaries: Barnet Waddingham. Our own pension's team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries and conclude we can place reliance on them. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. We noted however that the methodologies used to derive the discount rate and RPI inflation assumptions do not take adequate account of the specific duration of the scheme's liabilities. Although we concluded that these issue did not lead to a material misstatement of the pensions liabilities in the 2016/17 accounts, in future years, this could lead to unacceptable assumptions.</p> <p>Property valuations: We assessed and were satisfied with the competency and objectivity of the Council's internal property valuer. Therefore, we were able to place reliance on their work and carried out audit procedures to challenge the basis of valuation used by the valuer, focusing on specialist assets.</p> <p>Our work identified three misstatements. The first misstatement occurred as a result of an incorrect revaluation value of one property within Other Land and Buildings. This led to the valuation being understated by £2m (2015/16: overstatement of £2mn). The second misstatement related to the same asset referred to above, but is in regard to Depreciation as there was a consequential understatement of £39mn in 2015/16 within Other Land and Buildings. The third misstatement occurred due to Depreciation being omitted from PPE note 10 leading to an overstatement of £25.7mn. We therefore carried out additional audit work to assess the potential impact.</p> <p>We concluded that the overall valuation estimate was not unreasonable and did not result in a material misstatement to the value of property in the context of the overall Property, Plant and Equipment balance in the financial statements. Any change in valuation would not materially impact the decisions taken by the Council.</p>
<p>Preparation of group accounts</p> <p>For 2016/17 the Council has concluded that it needs to prepare group accounts, consolidating Harlow Trading Services (Environment and Property) Ltd for the first time.</p> <p>First time preparation of group accounts is a complex</p>	<p>We reviewed the procedures, which the finance team carried out to ensure the subsidiary was consolidated appropriately and tested material balances that had been consolidated in the financial statements. We also reviewed the associated disclosures to ensure these were in line with CIPFA's Code of Practice and relevant guidance.</p> <p>Our testing and audit work in this area did not identify any issues with the</p>

accounting procedure and increases the risk of material errors in the financial statements.

consolidation process. We did not identify any material misstatements in the material consolidated balances and disclosures were in line with the Code and guidance.

Other Key Findings	Conclusion
<p>Financial statements presentation</p> <p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>The service analysis should be based on the organisational structure under which the Council operates.</p> <p>This change in the code requires a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.</p>	<p>We reviewed the Expenditure and Funding Analysis, restated CIES and associated notes where a misstatement relating to the duplication of recharges was corrected (2016/17 £15.5mn, 2015/16: £16mn)</p> <p>We agreed with the Council's assessment for reporting its organisational structure and agreed the restated comparative figures back to the Council's segmental analysis and supporting working papers. The disclosures were in line with the CIPFA Code of Practice.</p>

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

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality for Harlow District Council to be £3.4mn. This is based on 2% of Gross Expenditure reported in the accounts, adjusted for levies and non-distributed costs, payments to the government housing capital receipts pool, interest payable on debt and similar charges and net interest on the net defined benefit liability, totalling £170.9mn.</p> <p>We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit and Standards Committee that we would report to the Committee all uncorrected audit differences in excess of £0.171mn .</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: we audited all disclosures and undertook procedures to confirm material completeness
- Related party transactions: we audited all disclosures and undertook procedures to confirm material completeness.
- Councillors' allowances: we agreed the amounts disclosed in the financial statements to those on the Council's website and carried out substantive testing.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

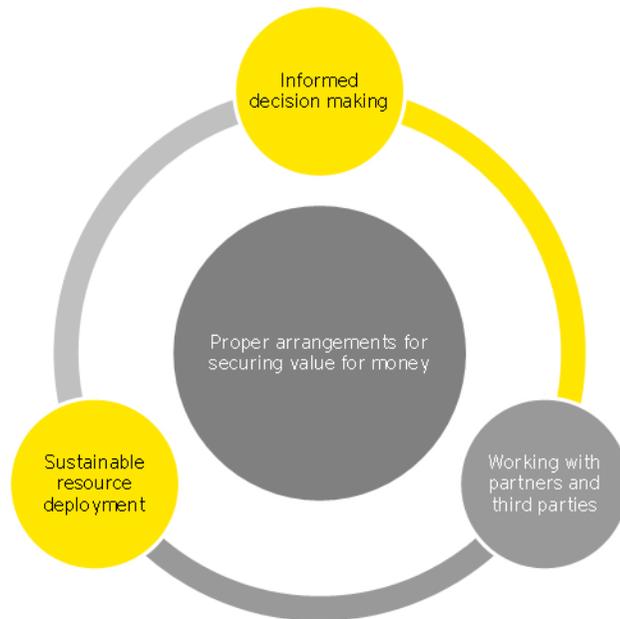
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued an unqualified value for money conclusion on 28 September 2017.

We have noted that in their Medium Term Financial Strategy the Council has projected budget gap across the 2018/19 - 2020/21 financial years of £661,000. The Council are in the process of developing a three year Medium Term Financial Plan and Corporate Plan and are confident that they will be able to delivery this, assuming that there are no significant external funding changes.

We will consider the principles included in the budget when received but the Council does have a history of meeting budget gaps.



Other Reporting Issues

Other Reporting Issues

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.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Standards Committee on 6 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient 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 are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

These following controls issues were brought to the attention of the Standards and Audit Committee.

- In testing Property Plant and Equipment (PPE) we have noted the same issues as we reported in the prior year, this led to errors in the reporting of PPE in the statement of accounts. The Authority carries out two revaluation exercises annually. However, the Authority's fixed asset register software (Technology Forge - TF) is unable to process more than one. As a result, finance staff are required to input manual adjustments to the fixed asset register increasing the risk of error. We recommend that the Authority take action to resolve this recurring issue.
- In the testing of the restatement of the Comprehensive Income and Expenditure Statement (CIES) we noted that the Authority incorrectly included non-reporting transactions in the accounts. These related largely to recharges. As a result the Authority has made material corrections to the accounts. We recommend that the Authority take action to resolve this matter.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has commenced taking steps in 2016/17. For example, it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> ▶ Issued a thought piece on early closedown ▶ As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales ▶ Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 ▶ Arranged a faster close workshop in October 2017. <p>Locally, we have engaged in discussions with the Council and, following the completion of the 2016/17 audit, we are agreeing areas of early substantive testing for 2017/18. With management's input, we will continue to develop this approach to bring forward our audit during the 2017/18 audit.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

The scale fee is set by the PSAA and was reported in the Audit Plan that we presented to the Audit and Standards Committee meeting on 8 March 2017. We set out below the fees for the year ended 31 March 2017.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee - Code work (see note 1)	*85,514	79,514*	77,514	77,514
Total Audit Fee - Certification of claims and returns	**To be confirmed	18,695	18,695	18,695

Note 1: Our actual fee is higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) as a result of additional procedures we undertook on the Council's group accounts. In addition, we incurred additional costs in relation to delays experienced during the audit. We have agreed with the Head of Finance an additional fee of £5,000 for this additional work. These additional fees are subject to agreement with PSAA.

Note 2: We have not yet completed our audit of the 2016/17 housing subsidy claim and therefore are not able to confirm the final fee for 2016/17.

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