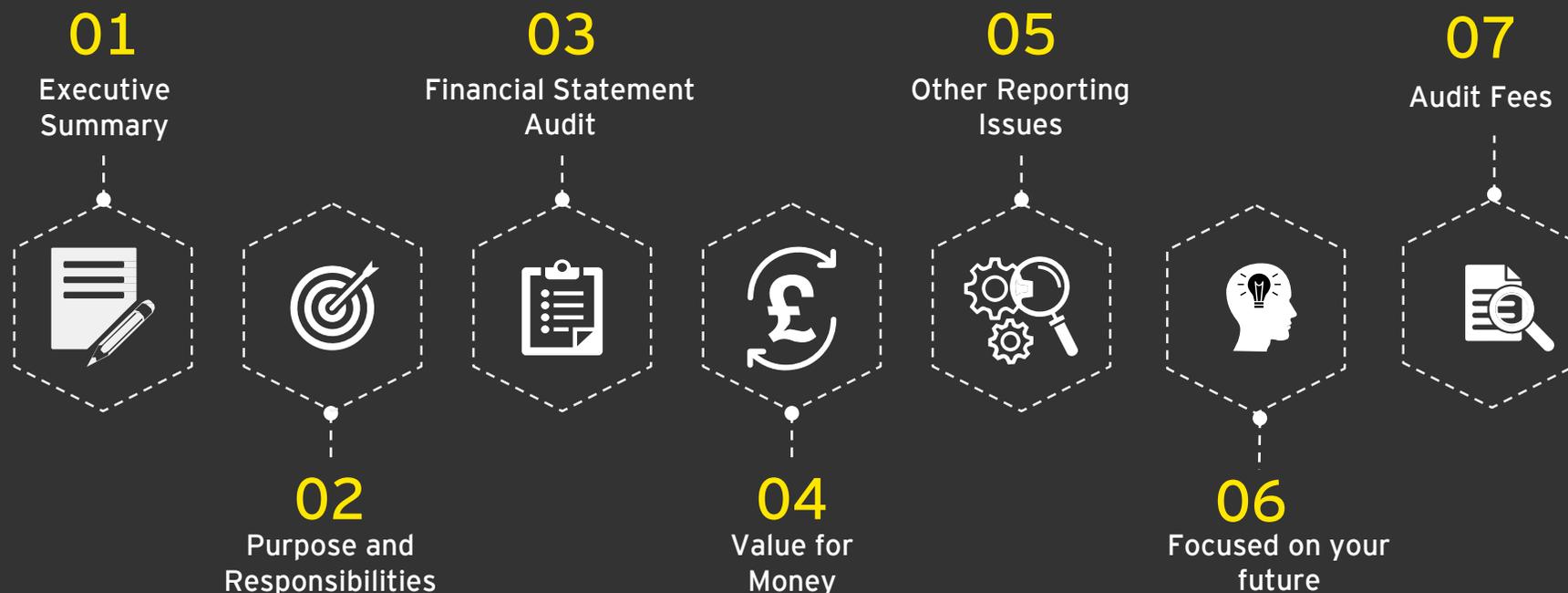


Harlow District Council

Annual Audit Letter for the year
ended 31 March 2018

November 2018

Contents



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.psa.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.



01 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 2018. 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 2018 and of its expenditure and income for the year then ended. However, as a result of the time required to address two significant technical accounting matters and audit several restatements and adjustments, we did not issue the auditor's report until 14 September, after the 31 July target date.
▶ 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).	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack. We had no matters to report.

Executive Summary (cont'd)

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.	We issued Audit Results Reports to the 31 July Audit & Standards Committee and the specially convened 5 September meeting.
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 14 September 2018, after the 31 July 2018 target date.

Fees

Throughout the year we have engaged early and effectively with the finance team on matters relating to the Council's accounts, in particular in respect of three technical accounting issues - the Minimum Revenue Provision, HRA depreciation and pensions. For all three issues we have engaged our own experts to ensure that the Council's accounting treatment was appropriate and the disclosures in the Council's accounts are materially correct. These issues required additional audit time and effort and as a result we have agreed additional fees with the Head of Finance which we have outlined in Section 7. Along with additional fees relating to the additional work we were required to undertake was to complete the audit of the group accounts, to audit the restatements and other adjustments that the Council made to its 2017/18 accounts.

In December 2018 we will also issue a report to the Audit and Standards Committee summarising the work we have undertaken to certify the Council's 2017/18 claim for housing benefit subsidy.

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



02

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 2017/18 Audit Results Report to the Audit & 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 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 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 National Audit Office (NAO) on you Whole of Government Accounts return.

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

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 place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

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 National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 14 September 2018. This was after the target date of 31 July, due to the additional time required to address two technical accounting issues and audit several restatements and other adjustments to the accounts.

We reported our findings to 31 July Audit & Standards Committee and the specially convened 5 September meeting.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none">• Wrote to the Section 151 officer, Chair of the Audit & Standards Committee, Head of Internal Audit and Monitoring Officer in this regard and reviewed their responses.• Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed.• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.• Obtained a breakdown of capital additions in the year and tested a sample of them to identify any items that could be revenue in nature. We amended our sample sizes when testing additions to reflect the existence of this risk and agreed samples to source documentation to ensure the capital/revenue split was reasonable.• Reviewed accounting estimates for evidence of management bias.• Evaluated the business rationale for any significant unusual transactions. <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any 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>

Financial Statement Audit (cont'd)

Other areas of audit focus	Conclusion
<p>Property, Plant and Equipment valuation</p> <p>The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>In 2017/18 the Council changed the way it accounted for housing revenue account (HRA) depreciation. A technical and significant change.</p>	<p>We are satisfied that the Council's valuers have the necessary qualifications and experience. We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the Council's property.</p> <p>Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates.</p> <p>We considered the underlying assumptions made by the expert valuer and concluded that the overall valuation estimate was not unreasonable and did not result in a material misstatement of the value of property, plant and equipment.</p> <p>We engaged our experts to review the Council's accounting for HRA depreciation and over the course of the audit we challenged some assumptions and judgements. We concluded that the final accounting treatment and disclosure in the accounts was reasonable.</p>
<p>Pension Liability</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>	<p>We assessed and were satisfied with the competency and objectivity of the Council's actuary: Barnett Waddingham. EY Pensions team and PwC (Consulting Actuary to the NAO) reviewed the work of the actuary. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.</p> <p>We have received reports from the Essex Pension Fund Auditor and the EY actuarial team.</p> <p>The report from the Essex Pension Fund Auditor identified material movements in the pension assets and related disclosures, as a result of significant movements in the asset values between the date of the estimates used by the actuary to produce the IAS19 report and the year end.</p> <p>As a result, the Council obtained a revised IAS 19 report and updated the accounts to reflect the new figures. This resulted in an increase in the pension liability of £3.52 million and a corresponding increase in the pension reserve.</p> <p>The accounting entries and disclosures are in line with our expectations and the Code.</p>

Financial Statement Audit (cont'd)

Other area of audit focus	Conclusion
Accounting for HTS Ltd pensions	We engaged our expert to review the Council's proposed accounting for HTS Ltd pensions. We challenged some assumptions and judgements made by the Council and over the course of the audit we concluded that the final accounting treatment and disclosures were reasonable.

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 to be £2.91 million (2016/17: £3.058 million), which is 2% of gross expenditure on provision of services reported in the accounts of £149.595 million, adjusted for other operating expenditure, interest, and pension costs.</p> <p>We consider gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	We agreed with the Audit & Standards Committee that we would report to the Committee all audit differences in excess of £0.150 million (2016/17: £0.153 million)

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: Our audit strategy was to check the bandings reported in notes 29 of the financial statements, test the completeness of the disclosure and make sure that the disclosure was compliant with the Code. We sample checked transactions back to the payroll system and supporting documentation. No issues were noted in our testing.
- ▶ Related party transactions. Our audit strategy was to obtain and review declarations from senior officers and members of the Council and make sure that any resulting disclosures were compliant with the Code. No issues were noted in our testing.
- ▶ Members' allowances. Our audit strategy was to test the completeness of the disclosure and make sure that the disclosure was compliant with the Code by sample checking transactions back to the payroll system and the Council's Constitution. No issues were noted.



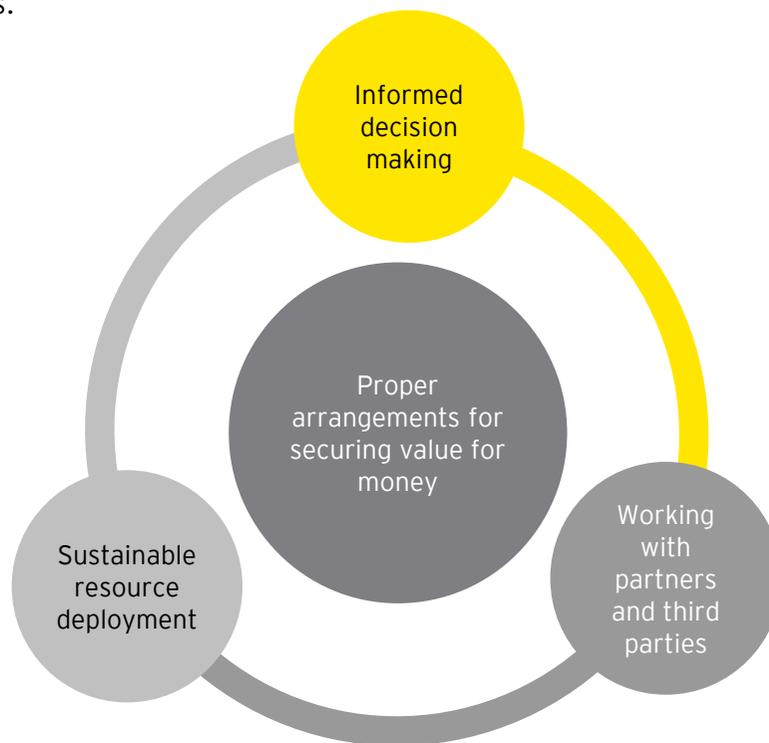
04 Value for Money

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 did not identify any significant risks in relation to these arrangements.

We performed the procedures outlined in our Audit Plan, where our review did not identify any weaknesses.

We therefore issued an unqualified value for money conclusion on 14 September 2018.



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 did not identify any matters to report.

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 2017/18 financial statements from members 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 & Standards Committee on 31 July 2018. 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

Our audit did not identify any controls issues to bring to the attention of the Audit & Standards Committee.



06

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty.</p> <p>Currently, the MHCLG is consulting on introducing a statutory override to mitigate the potential volatility of IFRS 9 on pooled investment vehicles.</p> <p>This override will be time limited requiring local authorities to reverse out fair value movements on pooled investment funds to an unusable reserves for a period of up to five years.</p>
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p> <p>Given the nature of the Council's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the single entity financial statements of the Council. However, the Council is yet to carry out a review of contract income from service recipients to assess the potential impact.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p> <p>The Council is yet to carry out a review of their leases to assess the potential impact.</p>



07

Audit Fees

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm we have undertaken no non-audit work outside the PSAA Code requirements.

	Final fee 2017/18	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£	£
Standard fee	77,514	77,514	77,514	77,514
Additional audit work: (Note 1)				
- Group accounts	3,983	2,000	-	2,082
- Issues with working papers and resolving audit queries	-	-	-	5,060
- Restatements to PY and volume of audit adjustments to review	2,407	-	-	-
- MRP Review	1,687	-	-	-
- Pensions issue	9,762	10,000	-	-
- HRA Depreciation issue	8,995	10,000	-	-
Total audit fee - code work	104,347	99,514	77,514	84,656
Housing Benefits certification (Note 2)	Tbc	18,695	18,695	22,695
Total fees	Tbc	118,209	96,209	107,351

Note 1:

The additional work was undertaken in relation to a number of material misstatements identified (£26,833). These variations were agreed with the S151 officer and have been approved by the PSAA. The additional work in relation to the 2016/17 final fee is still subject to PSAA approval.

Note 2:

The final fee for the Housing Benefit Subsidy certification will be confirmed upon completion by the 30 November deadline. We will report the final fee in our annual grant certification report.

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