



Report to the Audit and Standards Committee
HARLOW COUNCIL

Audit Progress Report: Year ended 31 March 2019

IDEAS | PEOPLE | TRUST



CONTENTS

1	Introduction	3
	Welcome	3
2	Executive summary	4
	Overview	4
	The numbers	5
	Other matters	6
3	Financial statements	7
	Audit risks overview	7
	Management override of controls	8
	Revenue (and expenditure) recognition	9
	Property, plant & equipment and investment property valuation	10
	Pension Liability valuation	12
	HTS pension costs and liability treatment	14
	Other matters	15
	Matters requiring additional consideration	16
4	Audit differences	17
	Unadjusted audit differences: summary	17
	Unadjusted audit differences: detail	18
	Adjusted audit differences: summary	19
	Adjusted audit differences: Current year	20
	Adjusted disclosure omissions and improvements	21
5	Other reporting matters	22
	Reporting on other information	22

	Whole of Government Accounts	23
6	Use of resources	24
	Overview	24
	Other deficiencies	25
7	Audit report	26
	Overview	26
8	Independence and fees	27
	Independence	27
9	Appendices contents	28

WELCOME

Introduction

Contents

Introduction

Welcome

Executive summary

Financial statements

Audit differences

Other reporting matters

Use of resources

Audit report

Independence and fees

Appendices contents

We have pleasure in presenting our Audit progress Report to the Audit and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises our progress in completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. During the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of our audit of the Group and the Council financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided so far during the audit.

6 September 2019



Lisa Clampin
Engagement Lead

t: +44(0)1473 320716
m: +44(0)7791 397160
e: lisa.clampin@bdo.co.uk



Francesca Palmer
Audit Manager

t: +44 (0) 1473 320 739
m: +44 (0) 7970 126254
e: francesca.palmer@bdo.co.uk



Emma Etherington
Audit senior

t: +44 (0) 1473 320802
m: +44 (0) 7583 180999
e: emma.etherington@bdo.co.uk

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the Group and the Council financial statements and use of resources. This report has been prepared solely for the use of the **Audit and Standards Committee** and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Financial statements
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

This summary provides an overview of the audit matters identified to date that we believe are important to the Audit and Standards Committee in reviewing the results of the audit of the financial statements and use of resources of the Group for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



Overview

Our audit work is on going, and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2019 on 24 October 2019.

Delays have occurred to the original timetable as a result of significant adjustments being required to be made to the accounts and in adequate working papers being provided for audit in a timely way.

Outstanding matters are listed on page 31 in the appendices.

No restrictions were placed on our work.

THE NUMBERS

Executive summary

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Financial statements
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

Final materiality

Group final materiality was determined based on gross expenditure.

We have decreased our materiality from £2,461,000 to £2,186,000 as a result of a decrease in expenditure

Material misstatements

Our audit has identified the following material misstatements to date:

- Incorrect grossing up in Debtors and Creditors resulting in an adjustment of £3,109,000 to the balance sheet only.
- Incorrect treatment of HTS pension liability in single entity and group accounts. The overall impact of this is an increase in the Pensions Liability of £11,613,000 and a decrease in expenditure of £1,362,000. This error also results in a prior period adjustment.

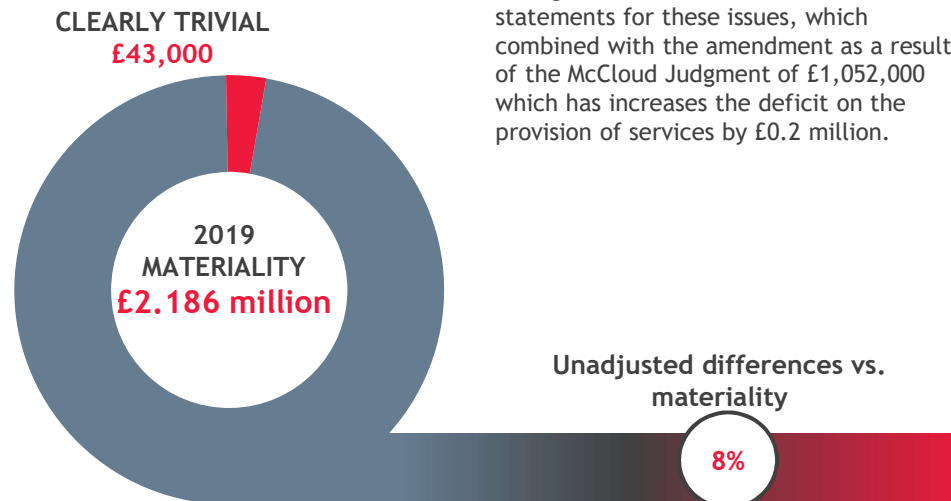
Management has amended the financial statements for these issues, which combined with the amendment as a result of the McCloud Judgment of £1,052,000 which has increases the deficit on the provision of services by £0.2 million.

Unadjusted audit differences

We have identified audit adjustments to date that, if posted, would increase the deficit on the provision of services by £168,000.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements).



OTHER MATTERS

Executive summary

Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Audit differences

Other reporting matters

Use of resources

Audit report

Independence and fees

Appendices contents

Financial reporting

- The Pension liability for HTS was included within the single entity accounts due to the guarantee provided by the Council to Essex Pension Fund. Audit enquires and discussions with management identified that as the circumstances relating to the Guarantee have not yet crystallised so there is no current liability for the council. Management amended the statements so that the HTS Liability of £13,174,000 is now included in the group accounts only.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is still pending review
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- The Council is below the audit threshold of £500 million for a full assurance review of the Whole of Government Accounts Data Collection Tool.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Group and the Council in accordance with the Financial Reporting Council's Ethical Standard.



AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 28 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	Work in progress		
Revenue (and expenditure) recognition	Significant	No	No	Work in progress		
Property, plant & equipment and investment property valuation	Significant	Yes	Yes	Yes, adjusted Work in progress		
Pension Liability valuation	Significant	Yes	Yes	Yes, adjusted	No	Yes
Pension liability assumptions	Significant	Yes	No	Yes, adjusted	No	
HTS pension costs and liability treatment	Significant	Yes	No	Yes, adjusted	No	
Other matters						
Matters requiring additional consideration						

■ Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- Review and verification of 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 team 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

Results

Our work in this area is in progress.

REVENUE (AND EXPENDITURE) RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Risk description

We consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES) and fees and charges.

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met
- Tested an increased sample of fees and charges to ensure they have been recorded in the correct period and to ensure that all income that should have been recorded has been recognised
- Tested an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

Results

Our work in this area is in progress.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Risk description

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date. PPE values are subject to valuation changes and material judgemental inputs and estimation techniques.

The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.

As part of the 5 year rolling re-valuation programme, approximately 20% of the land and buildings assets have been re-valued in 2018/19.

The Council uses an external valuer to perform the valuation assessment.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert
- Confirm that the basis of valuation for assets valued in year is appropriate based on their usage
- Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual
- Reviewed the basis for the approach to calculation of useful economic life for housing assets given the recent change in valuer and approach
- Confirm that PPE not specifically revalued in the year was assessed to ensure their reported values remain materially accurate.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Results

We have reviewed the instructions to valuer and their skills and expertise and confirmed that we can rely on them as management experts.

We have confirmed that the basis for valuation is appropriate based on the usage of the asset.

We have completed the revelation testing for assets valued using the DRC method and have not identified any errors. Supporting documentation for the remaining assets has been received and is currently under audit.

Our other work in this area is still ongoing.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

PENSION LIABILITY VALUATION

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary
- Reviewed the competence of the management expert (actuary)
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data
- Reviewed the controls for providing accurate membership data to the actuary
- Contacted the administering authority and request confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data
- Checked that any significant changes in membership data have been communicated to the actuary.

Results

No issues have been noted from our work carried out in relation to the information provided to the actuary and we received satisfactory assurances from the pension fund auditor. We consider the assumptions used on the next page.

In respect of the McCloud judgement, the Council has requested an updated valuation of the gross pension liability to take account of the impact of this ruling. The updated actuary report shows the estimated impact on total liabilities as at 31 March 2019 from McCloud judgement to be £1,052k. This represents 1.15% of the total liabilities as at 31 March 2019. The Government Actuary Department (GAD) has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the fund has an average age of 46 and salaries increase at +1.5% above CPI. The estimate prepared by the actuary Barnett Waddingham has used the analysis prepared by GAD and is based on the assumption that salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. The assumptions used by the actuary in estimating the impact of McCloud judgement are considered to be reasonable and in line with the GAD review.

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

PENSION LIABILITY ASSUMPTIONS

Continued

Significant accounting estimates

Pensions disclosures with the Councils accounts are based on a number of assumptions which are made by the Actuary as Management's Expert.

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

The Council's share of the LGPS net pension liability reduced by £10.9 million to £90.3 million in the year. This includes an increase in scheme assets of £11.1 million from interest and gains on investments and an increase in liabilities of £0.2 million.

We have compared the assumptions used to an acceptable range and those used across the local government actuaries. The PwC consulting actuary review of the relative strength of the main assumptions suggests that the methodologies used will produce reasonable assumptions for all employers.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.45%	3.40 - 3.45%	Reasonable
- CPI increase	2.45%	2.40 - 2.45%	Reasonable
- Salary increase	3.95%	3.10 - 4.35%	Reasonable (CPI +0% to 2020 and then CPI +1.5%)
- Pension increase	2.45%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Mortality:			
- Male current	22.9 years	22.4 - 25.0	Reasonable
- Female current	25.4 years	25.0 - 26.6	Reasonable
- Male retired	21.3 years	20.6 - 23.4	Reasonable
- Female retired	23.6 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate)		Reasonable

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower LGPS liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.2% based on average of the assumptions used by all actuaries.

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

Impact

< lower

higher >

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

HTS PENSION COSTS AND LIABILITY TREATMENT

A number of changes to the accounting treatment for HTS's Pensions costs and liability were made as a result of the prior year audit. It was recommended that the tripartite agreement was amended however this has not happened.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

HTS was consolidated into the Council's accounts for the first time in 2017/18 year. The Council agreed with HTS that it will pay any employer contributions above 14.1% for transferred employees and 10.6% for ex-Keir employees. In addition, the Council has guaranteed that any termination liability will remain the responsibility of the Council when HTS's participation in the LGPS scheme finishes. Upon review of the prior year draft accounts the previous auditors concluded that the approach taken was incorrect and requested a number of amendments to both the accounts and the tripartite agreement to reflect the pooling of the funds that is in place. The Accounts were amended and an unmodified true and fair opinion was given. However the Pension fund administrating body has declined to amend the tripartite agreement. Therefore there remains a risk that the accounting is not in line with the agreement or that the Council is inappropriately accounting for the costs and liabilities relating to HTS's share of the Pension fund costs and liability in its single entity accounts.

Work performed

We carried out the following planned audit procedures:

- Review of the arrangements in place and proposed accounting treatment to confirm that the accounting treatment is in line with the agreement and proper practices and that the Council's accounting for the costs of HTS in the single entity accounts is appropriate and materially accurate.

Results

We reviewed the arrangements in place for the accounting of the HTS pension liability and agreed with the Council that the current year and prior year accounts should be amended to remove HTS pension assets and liabilities from the Council's single entity accounts, and only include them in the group accounts because the guarantee that the Council has given has not been crystallised in the year. This results in an increase to the pensions liability of £11,613,000

The accounts have now been amended to reflect these changes, and we will review all the accounting entries and related disclosures to ensure that we are content that the HTS costs are now appropriately treated.

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Working paper quality	<p>We have encountered a number of delays with the audit due to poor quality working papers provided at the start of the audit. These included:</p> <ul style="list-style-type: none">• Overly complex working papers which made it difficult to chose PPE samples for audit testing. This resulted in having to ask the Council to re visit the working papers so it was clear how individual assets were consolidated into the accounts.• Debtor and creditor listings including all transactions in the year, rather than just those transactions that make up the year end balances.• Supporting evidence provided wasn't always of a suitable standard.
Quality of accounts	<p>A number of queries were raised by ourselves on movements between the current year and prior year balances on the Balance sheet and HRA. Review of these by the Council resulted in adjustments being required to the draft accounts presented for audit and the supporting working papers.</p> <p>We also noted a number of omissions and inconsistencies within both the draft accounts initially presented for audit and the revised accounts. Conversely the draft accounts included a notable number of immaterial disclosures and associated policies which are not required.</p>

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Property, plant & equipment and investment property valuation
Pension Liability valuation
Pension liability assumptions
HTS pension costs and liability treatment
Other matters
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

Fraud

Whilst the directors 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 procedures carried out to date have not identified any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 13 March 2019.

Laws and regulations

We will make enquiries of management regarding compliance with laws and regulations and review any correspondence with the relevant authorities.

We have not identified any non-compliance with laws and regulations that could have a material impact on the financial statements from our audit procedures to date

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

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.

We identified the following significant matters in connection to related parties:

- Councilors are not asked for declarations of interest annually. We consider it to be best practice for this to be done to ensure that any potential related parties can be easily identified and disclosed.

Group matters

Following review of the component auditors' reporting we were satisfied with the quality of their work and can confirm:

- There were no limitations on the audit where information was restricted
- We did not identify any fraud at a component level.



UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents
Introduction
Executive summary
Financial statements
Audit differences
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Adjusted audit differences: summary
Adjusted audit differences: Current year
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents



We are required to bring to your attention unadjusted differences and we request that you correct them.

At the time of writing we have identified and agreed one unadjusted audit differences as a result of our work. This would increase the deficit on the provision of services and decrease net assets by £168,000 if adjusted.

The general fund balance would decrease by £168,000 if this audit difference was adjusted.

We are discussing with management a number of other issues which may lead to further unadjusted differences requiring disclosure.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents
Introduction
Executive summary
Financial statements
Audit differences
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Adjusted audit differences: summary
Adjusted audit differences: Current year
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
Deficit on the provision of services before unadjusted audit differences	24,438				
1:Additional claims information received relating to NNDR appeals provision calculation					
DR Taxation and none Specific Grant Income		168			
CR Business rates appeals					(168)
Total unadjusted audit differences agreed to date		168			(168)
Deficit on the provision of services if above issues adjusted	24,406				

Impact on the General Fund balance and HRA balance	General Fund balance £'000	HRA balance £'000
Balance before unadjusted audit differences	4,488	13,731
Impact on deficit on the provision of services above	(168)	0
Adjustments that would be reversed from the General Fund and HRA balance through the Movement in Reserves Statement	0	0
Balances after the above adjustments	4,320	13,731

We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.

We have not identified any disclosures to date that the Council is unwilling to amend.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents
Introduction
Executive summary
Financial statements
Audit differences
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Adjusted audit differences: summary
Adjusted audit differences: Current year
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents



There are 3 audit differences identified by our audit work to date that were adjusted by management. This increased the draft deficit on the provision of services and decreased net assets by £213,000. There was no impact on the general fund balance.

In addition management also identified a movement in reserves that they wished to adjust for.

The general fund balance decreased by £1,700,000 as a result of these adjustments.

ADJUSTED AUDIT DIFFERENCES: CURRENT YEAR

Details for the current year

Adjusted audit differences	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services before adjustments	24,225				
1:Grossing up errors between Debtors and Creditors					
DR Creditors				3,109	
CR Debtors					(3,109)
2:Pension - McCloud adjustment					
DR Cost of Services		1,052			
CR Pensions Liability					(1,052)
3: Removal of HTS pension entries from single entity accounts - in year impact.					
DR Cost of services			(1,101)		
DR Financing and investment income and expenditure		261			
DR Pensions reserve - long term HTS impact				12,453	
CR: Pensions liability					(11,613)
4: Movement to Earmarked reserves					
DR General Fund reserves				1,700	
CR Earmarked reserves					(1,700)
Total adjusted audit differences		1,313	(1,101)		
Adjusted deficit on the provision of services	24,438				

Contents
Introduction
Executive summary
Financial statements
Audit differences
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Adjusted audit differences: summary
Adjusted audit differences: Current year
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.

The following adjusted disclosure matters have been noted to date:

- A number of incomplete accounting notes, including notes to the group accounts and related party transactions.

Contents
Introduction
Executive summary
Financial statements
Audit differences
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Adjusted audit differences: summary
Adjusted audit differences: Current year
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Audit report
Independence and fees
Appendices contents

REPORTING ON OTHER INFORMATION

- Contents
- Introduction
- Executive summary
- Financial statements
- Audit differences
- Other reporting matters**
- Reporting on other information
- Whole of Government Accounts
- Use of resources
- Audit report
- Independence and fees
- Appendices contents

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	Our work on this area will be completed once we are further through the accounts audit.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Reporting on other information
Whole of Government Accounts
Use of resources
Audit report
Independence and fees
Appendices contents

Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline.</p> <p>We are planning to submit the relevant section of the assurance statement to the National Audit Office on 24 October 2019.</p>

OVERVIEW

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Overview
Other deficiencies
Audit report
Independence and fees
Appendices contents

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As noted in our Audit Plan we did not identify any significant risks relating to Use of Resources and we plan to issue an unmodified use of resources conclusion.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Sales invoicing	When a new debtor is set up there are no checked that the person authorising the form has the appropriate authority.	Implement a check to confirm that the staff member authorising the set up of a new debtor has the authority to do so.	[xx]
Journals authorisation	Journals are created by the originating officer and then approved by a senior officer on a journal transfer paper. The originating officer then enters the journal onto Agresso. This means that there is no check when the journal is entered on to the system and unauthorised journals could potentially be posted.	Authorise Journals once entered onto Agresso to ensure that they have been correctly entered.	[xx]
Evidence of review of council tax reconciliation	A reconciliation is carried out of council tax from Civica (Billing system), to PARIS, which relates to cash receipts and the general ledger (Agresso). The reconciliation is then reviewed by the senior service accountant. There is no evidence of this review retained	The preparer and reviewer should both sign the reconciliation as evidence of the work performed.	Agreed and has been implemented.
Related party transaction	The council does not currently obtain updated declarations of interest each year from members, this means that the information used to comply the related party transaction notes in the accounts may be incomplete or out of date.	Obtain updated declarations of interest at the end of every financial year from all Members & Officers and obtain declaration of interests from members when they resign. This will ensure there are no undisclosed related parties and that the disclosure is complete in nature.	[xx]

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Overview
Other deficiencies
Audit report
Independence and fees
Appendices contents

OVERVIEW

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Audit report
Overview
Independence and fees
Appendices contents

Opinion on financial statements

Our audit work is still on going and we will determine the opinion to be issued once complete.

Conclusion on use of resources

We anticipate issuing an unmodified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Group’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

Our work on this area is still ongoing, however we have not identified any material misstatements to date.

Annual Governance Statement

Our work on this area is still ongoing, however we have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of to date.

INDEPENDENCE

Contents
Introduction
Executive summary
Financial statements
Audit differences
Other reporting matters
Use of resources
Audit report
Independence and fees
Independence
Appendices contents

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners 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 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Standards Committee in advance in accordance with the Group’s policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

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

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 or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

We also confirm that we have obtained confirmation of independence from non BDO auditors and 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.

APPENDICES CONTENTS

A	Our responsibilities	29
	Responsibilities and reporting	29
	Additional matters we are required to report	30
B	Outstanding matters	31
C	Audit quality	32
D	Letter of representation	33

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Outstanding matters
Audit quality
Representative letter
Representative letter 2
Representative letter 3

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your consolidation Group and Council financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report. 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.

We report where we consider that the Group has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Outstanding matters

Audit quality

Representative letter

Representative letter 2

Representative letter 3

	Issue	Comments
1	Significant difficulties encountered during the audit.	We have encountered a number of difficulties during the audit. See other matters page for further details.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	We noted that the Council does not request updated declarations of interest annually, a recommendation has been made in relation to this.

OUTSTANDING MATTERS

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Outstanding matters

Audit quality

Representative letter

Representative letter 2

Representative letter 3

Our audit work is ongoing in respect of the financial statements and use of resources for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Standards Committee meeting at which this report is considered:

- Completion of outstanding testing. There is work outstanding in the following areas:
 - PPE
 - Receipt and review of the remaining samples relating to Debtors, Creditors, Income and Expenditure testing.
 - Prior period adjustments
 - Review of Expenditure and funding analysis
 - Financial statement preparation steps
 - Other information published with the accounts
 - Journals
 - Financial instruments
 - Updated minute review to date of signing
- Management letter of representation to be approved and signed
- Final review and approval by you of the Statement of Accounts
- Completion of Manager and Partner review and clearance of review points.
- Subsequent events review



AUDIT QUALITY

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Outstanding matters
Audit quality
Representative letter
Representative letter 2
Representative letter 3



BDO is totally committed to audit quality

It is a standing item on the agenda of BDO’s Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream’s objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

Letter of representation

Client name and Letter headed paper

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Harlow District Council for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Group and the Council's financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Head of Finance has fulfilled his responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Outstanding matters
Audit quality
Representative letter
Representative letter 2
Representative letter 3

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Outstanding matters

Audit quality

Representative letter

Representative letter 2

Representative letter 3

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 33 to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated Group and Council financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.45%
- Rate of increase in salaries: 3.95%
- Rate of increase in pensions: 2.45%
- Rate of discounting scheme liabilities: 2.4%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Outstanding matters
Audit quality
Representative letter
Representative letter 2
Representative letter 3

b) Valuation of Council Dwellings, other land and buildings and investment properties

We are satisfied that the useful economic lives of the council dwellings, other land and buildings, and their constituent components, used in the valuation of the council dwellings and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as Level 2 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable, based on collection rate data.

d) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2019 are consistent with our knowledge of the business.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Simon Freeman

Head of Finance and Deputy to the Managing Director

[date]

Cllr Stefan Mullard

Chair of the Audit and Standards Committee

[date]



FOR MORE INFORMATION:

Lisa Clampin

t: 01473 320716

m: 07791 397160

e: lisa.clampin@bdo.co.uk

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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

© 2019 BDO LLP. All rights reserved.

www.bdo.co.uk

