Report to the Audit and Standards Committee

HARLOW COUNCIL

Interim Audit Completion Report: Year ended 31 March 2019

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WELCOME
Introduction

Contents

We have pleasure in presenting our Interim Audit Completion 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 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.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit and Standards Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

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.

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23 September 2022

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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.

Contents

This summary provides an overview of the audit matters 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.

It builds upon the interim reports previously presented to the Audit and Standards Committee at its meetings in September 2019 and November 2020.

Overview

Our audit is now complete except for one matter regarding the accounting treatment applied in respect of infrastructure assets. This is a sector-wide issue that could materially impact the Council's financial statements. The nature of this issue, and the options being considered for the way forward, are set out in more detail on pages 12 and 13.

As reported previously to the Committee, delays against the original timetable occurred as a result of inadequate working papers initially being provided for audit and significant adjustments being required to correct the accounts, including six prior period adjustments being made totaling £68.9 million.

As a result of Covid-19 we are also required to consider the impact of the pandemic on our assessment of going concern. This work has been completed and adequate disclosures have been made.

There were no significant changes to the planned audit approach for the work completed, although this may be required depending on the outcome of the infrastructure assets accounting treatment issue mentioned above as this present an additional significant audit risk.

No restrictions were placed on our work.

Audit report

We will not be in a position to issue our opinion on the Group’s financial statements and the Council’s use of resources for the year ended 31 March 2019 until the technical matter in respect of compliance with the Code when accounting for infrastructure assets has been resolved. This is only outstanding issue and is the subject of dynamic discussion across the sector. There is a high level of engagement between public sector audit suppliers, CIPFA and the NAO in this respect. Resolution is expected to require the passing of a Statutory Instrument by Parliament. The current position is outlined on page 13 and we will update the Committee if any changes occur between the drafting and presentation of this report.

THE NUMBERS

Executive summary

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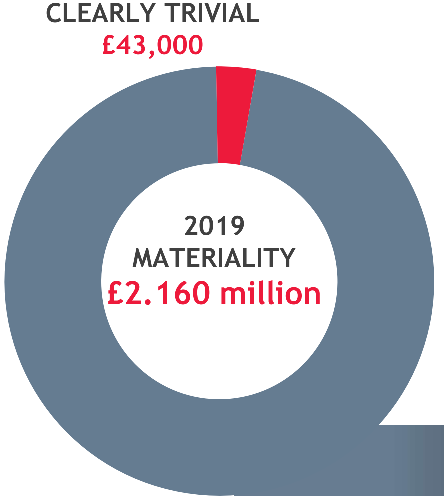
Final materiality

Group final materiality was determined based on gross expenditure.

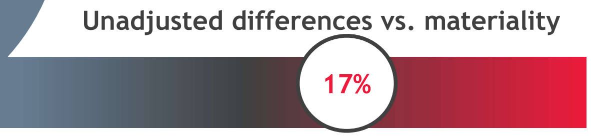
We decreased our materiality from the proposed £2,461,000 previously reported, to £2,160,000 as a result of a decrease in expenditure.



Material misstatements

Our audit identified the following material misstatements:

- Incorrect netting off in debtors and creditors resulting in an adjustment of £3.10 million in the balance sheet for 2018/19 and £2.0 million for 2017/18
- Incorrect treatment of HTS pension liability in both the single entity and group accounts. The overall impact of this is an increase in the Pensions Liability of £11.61 million and a decrease in expenditure of £1.6 million. This error also results in a prior period adjustment of £32 million. The pension reserve of £13.17 million for HTS was incorrectly disclosed as an unusable reserve in the group balance sheet, when it should be disclosed as a usable reserve. This error also resulted in adjustments being required to the prior year accounts to correctly reflect the accounting treatment in 2017/18, increasing the pension liability by £22.5 million in 2017/18.
- Omission of the returning Keir Harlow pensions asset from the 2016/17 and 2017/18 Council Pension liability figures reducing the pension liability by £9.04 million
- Incorrect treatment of receipts in advance resulting in Debtors and Creditors being overstated by £2.53 million
- Incorrect entries for Enterprise Zone additions and revaluations in 2017/18 and 2018/19 resulting in a increase of £10.71 million in 2017/18 and a decrease of £10.68 million in 2018/19 in the value of the asset.



- Incorrect classification of HRA expenditure of £5.818 million between lines within the HRA.

Management has amended the financial statements for these errors which, combined with a further amendment made as a result of the McCloud Judgment of £1.05 million and a number of other non-trivial differences, decreases the deficit on the provision of services by £107,000 for 2018/19.

We identified 3 further prior period adjustments (PPAs), these are material misstatements in the opening balances brought forward from the previous year, which individually were immaterial but combined were material. The Council adjusted for the derecognition of licenses accounted for as investment property (£0.57 million) and impairment losses not posted to the provision of services (£1.0 million) but did not amend reversal of impairments posted to the revaluation reserve rather than the CIES (£1.9 million).

Unadjusted audit differences

In addition we identified unadjusted audit differences that, if posted, would increase the net deficit on the provision of services by £369,000.

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). This objective has been achieved.

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 crystalised there is no current liability for the Council. Management amended the statements so that the HTS Liability of £11.60 million is now included in the group accounts only (PY £9.49 million).
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures required expansion as a result of the Covid-19 pandemic and the associated impact on the Council's finances.
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- 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

- Our audit identified significant deficiencies in control in relation to accounts preparation processes and accounting for property, plant and equipment.

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.

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Identified significant deficiencies in internal control

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Group and the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported here are limited to those deficiencies that we have identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance.

Our audit of the draft statement of accounts identified a significant number of figures included in the statements which were misstated, some materially so. We have raised these matters with the Council throughout the audit, which has resulted in revised working papers being provided to the auditors for a significant number of areas in the accounts. As a result, it has been necessary to perform additional audit work to confirm the accuracy of revisions proposed by the Council.

The errors identified in our audit varied in their nature and impact on the statement of accounts. They also include a number of misstatements in relation to the prior year (2017/18) comparatives in relation to Property Plant and Equipment and the Revaluation Reserve, which resulted in a prior period adjustment due to their material size.

The Council has also been unable to provide us with evidence that a robust review of the financial statements was carried out prior to the authorisation of the draft accounts and presenting the accounts for audit.

The material disclosure misstatements in the core financial statements certified by the section 151 officer, published by the Council and presented for audit, is contrary to the Local Authority Accounting Code of Practice requirement for the Council to produce materially accurate draft financial statements. We worked with the Council to confirm the impact of the audit findings, the Council has produced a final set of financial statements that are materially accurate and Code compliant. However there remain a number of immaterial but non-trivial inconsistencies between various parts of the financial statements. These are detailed on page 25.

Recommendations in relation to these deficiencies have been made on page 38.

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	No	No	No	No	No
Revenue Recognition	Significant	No	No	No	No	No
Property, Plant & Equipment and Investment Property valuation - extended to specifically include accounting for infrastructure assets	Significant	Yes	Yes	Yes, material and adjusted	Yes	Yes
Pension liability valuation	Significant	Yes	Yes	Yes, material and adjusted	No	Yes
Treatment of HTS pension costs and liability	Significant	Yes	No	Yes, material and adjusted	No	Yes

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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 determined key risk characteristics to filter the population of journals to identify unusual or potentially inappropriate journals. We used 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

Results

Our audit work on journals has not identified any significant issues. We noted that the Council has a policy of a senior officer approving journals on a journal transfer paper and then the originating officer entering the journal onto the accounting system. We consider this increases the risk of incorrect Journals being posted to the accounting system but, from the procedures we completed, there was no indication of inappropriate journals being posted.

Our work on estimates has not identified any management bias indicating a risk of material misstatement.

We obtained an understanding for transactions outside the normal course of business for the Council such as land purchases and have not identified any indications of management override.

REVENUE (AND EXPENDITURE) RECOGNITION

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

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

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 had 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 had been recognised
- Tested an increased sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

Results

Our testing did not identify any issues with recognition of grants within the CIES or the recording of expenditure. However, the council had raised some invoices in 2018/19 that related to 2019/20 and incorrectly accounted for these by creating a payment in advance to offset the debtor. As the invoiced had not been paid at this time and related to the following financial year no receipt in advance existed and the debtor should have been removed. This resulted in debtors and creditors being overstated by £2.53 million. This has been amended in the latest version of the accounts.

PROPERTY PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

Contents

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

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

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
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage
- Reviewed the 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
- Confirmed that PPE not specifically revalued in the year had been assessed to ensure reported values remained materially accurate.

PROPERTY PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

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

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

Results

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

We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. We reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and property sizes for DRC, fair value and existing use properties. We identified three properties where the floor areas were incorrect resulting in an understatement of value and one property where the value was incorrect as the valuer had not been advised of damage caused by vandalism. The net impact of these errors was trivial and therefore the accounts have not been adjusted.

Our review of investment property identified that the Council had capitalised license agreements with telecoms companies for the right to access communication equipment on Council property as investment property, however discussions with Council staff have confirmed that there is no separate asset and therefore these should not be classified as Investment property. The accounts have been amended for this error (£569,000).

We reviewed the assessment made by the Council of PPE not specifically revalued in the year and confirmed that their reported values remain materially accurate.

We identified that the Council's treatment of revaluation gains at 31 March has been incorrect for a number of years resulting in misstatements to the value taken to the CIES, revaluation reserve and capital adjustment account. The Council has corrected the 2018/19 value by £416,000 for this error. Is also incorrect by £1.92 million but this is not material and, consequently, has not been corrected.

As part of our work on revaluation and reserves we identified further issues in the accounting treatment applied by the Council in respect of land and buildings associated with the Harlow Enterprise Zone and related disclosures. The errors identified in this area resulted in a prior period adjustment of £11.25m. There remains a further difference of £1.1 million that the Council has been unable to explain, and this has been reported as an unadjusted error. There is no impact on the General Fund as a result of this difference.

Historically it has been generally accepted public sector practice for authorities to not write out the value of replaced highways infrastructure components and/or those components which are fully depreciated from the balance sheet. This practice has recently been highlighted as contrary to the Code requirement that the carrying amount of replaced components be written out of the Balance Sheet. There are various reasons for the historic practice being adopted including; asset registers not recording infrastructure assets with sufficient level of detail to identify individual infrastructure assets or changes to them and processes which drive infrastructure spend (eg condition surveys) not recording historical information relating to previous spend.

PROPERTY PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

Contents

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

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

Results

Harlow Council adopts this common approach to accounting for infrastructure assets. At 31 March 2019 the Council had infrastructure assets in its balance sheet with a net book value of £7.2 million, which is material.

Over time, this common approach is likely to have resulted in a material overstatement of gross book value and accumulated depreciation in the notes to the balance sheet and net book value may be materially overstated if infrastructure is being replaced more frequently than useful economic lives suggest.

This issue has been raised nationally with the NAO, CIPFA and all public sector audit suppliers and a task and finish group has been set up by those stakeholders to review the options for addressing this non-compliance. Several meetings have been held and CIPFA ran a consultation process to consider options including (but not limited to):

- Override of certain provisions within the Code and its guidance relating to the accounting for infrastructure assets
- Methods for obtaining missing data/records such that the extent of any misstatement can be reasonably quantified
- Modification of the audit opinion.

This matter is not yet resolved but our understanding of the latest position is detailed below.

In respect of the gross book value and accumulated depreciation disclosures, we are anticipating that there will be an override of the existing Code requirement to disclose these amounts in the Statement of Accounts that will simply remove the requirement to do so. This is in the process of being agreed with CIPFA/LASAAC and the Financial Reporting and Advisory Board (FRAB). We understand that there is a FRAB session scheduled later this month to consider the proposed Code changes.

Once agreement has been reached, we understand that the wording of the Code override will be issued as an amendment to the Code, to apply retrospectively back to when IFRS was first introduced in 2010/11 and will be extant until at least 2024/25.

On the matter of the material accuracy of the net carrying value of infrastructure assets, it is anticipated that a direction will be made, by way of a Statutory Instrument, that seeks a way forward on this issue which aims to limit instances of qualification of the accounts.

We have not seen any proposed wording for this Statutory Instrument (which is being drafted by DLUHC and CIPFA/LASAAC) but we expect it will be designed to be retrospective to avoid a rolling qualification on infrastructure asset balances. The Statutory Instrument will need to be approved by Parliament and there is presently no clear timeline on when this might happen, but we know that once it is laid before Parliament it will take 21 days for it to clear that process.

PROPERTY PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

Continued

Significant accounting estimates - Land and building valuations

Overview

Land and buildings used by the Council for operational purposes are valued by reference to existing use market values.

HRA Dwellings are valued at open market value and then adjusted to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional differences between market rents and social rents.

We have benchmarked the valuation movements to land and building price indices for the year produced by Gerald Eve LLP and reviewed the information and assumptions used by the valuers.

Discussion

Land and buildings have increased by £12.225 million in 2018/19. This is mainly due to an increase in valuations of £10.641 million which is 9%.

Our benchmark report for rebuild costs from the national BCIS Tender Price Index suggests an increase in value for depreciated replacement cost (DRC) valuations of +3.2% per annum, although this is subject to a higher degree of volatility and estimation from regional costs and other factors compared to the more localised information used by the valuer. Our work on this area included consideration of the specific local benchmarks as well as a range of other relevant benchmarks, data used by the valuer and the length of time since the last valuation. As a result of the actual valuations being higher than our expectations based on the benchmark report we consider that the valuations are generous although, overall, our review of the assumptions used by valuer found that they were reasonable, and the valuations were within an acceptable range.

We concluded that the information used supported the increase in asset values reported.

Land and buildings have been valued using an appropriate basis of valuation (such as existing use, depreciated replacement cost or market value) depending on the use of the asset.

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PENSION LIABILITY VALUATION

Contents

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 have received satisfactory assurances from the pension fund auditor. We have considered the assumptions used on the next page.

Since the publication of the Council's draft Statement of Accounts, the Government have been refused leave to appeal the age discrimination case brought in relation to the New Judicial Pension scheme (known as the McCloud Judgement). Therefore, the accounts have been amended to reflect the additional liability (£1.052 million) arising from this change in events.

PENSION LIABILITY ASSUMPTIONS

Continued

Significant accounting estimates

Pensions disclosures with the Council's accounts are based on a number of assumptions which are made by the Actuary as Managements 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 key financial and demographic assumptions used to an acceptable range provided by a consulting actuary (PwC) commissioned for local public auditors by the NAO.

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.

	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 liability 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.

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HTS PENSION COSTS AND LIABILITY TREATMENT

Contents

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. The Council have 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 reviewed the arrangements in place, and the Council's 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's view 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. This is because HTS is an admitted body in its own right and, whilst the Council has agreed to guarantee any payments to the Pension Scheme that HTS is unable to make, there is currently no reason to expect the guarantee to crystalise resulting in the Council needing to make the payment. This resulted in an adjustment of £32 million to the Pensions Reserve in the Council's accounts in the current year and £33 million in the prior year.

The Council initially treated the pension reserve of HTS (£13.2 million) as an unusable reserve, this was inappropriate because when a pensions reserve is within a company it is classified as part of the profit and loss reserves and therefore useable. This has now been amended within the group accounts.

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

OTHER MATTERS

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

Issue	Comment
Poor quality working papers	We encountered a significant number of delays with the audit due to the poor quality of the working papers provided at the start of the audit. These issues included: • Not being able to trace PPE values back to assets without going through a number of workbooks. This made it extremely challenging to choose samples for audit and resulted in having to ask the Council to re do working papers so it was clear how individual assets were consolidated into the accounts. Further work on this area then showed that some of the entries made were incorrect and resulted in audit adjustments. • The debtor and creditor listings including all transactions in the year, rather than just those transactions that make up the year end balances. • Netting off of transactions within Debtors and Creditors inappropriately, resulting audit adjustments being required. • Supporting evidence provided wasn't always of a suitable standard, eg screen prints rather than invoices, and the payroll supporting information had the payroll numbers redacted in case they could be seen as personal information. • Identification of historic issues with PPE accounting resulting in incorrect entries being made to the PPE, EFA, Revaluation reserve and Capital Adjustment account. The finance team is working to ensure that the issues arising from this first year audit with BDO are addressed in for future audits. We have held an audit debrief session between the audit and finance teams to facilitate this process.
Quality of accounts	We raised a number of queries on movements between the current year and prior year balances on the Balance Sheet and HRA. Investigation by the Council resulted in material adjustments being required to the draft accounts presented for audit and the supporting working papers to reflect the actual transactions that had taken place in the year. We also noted a number of omissions and internal inconsistencies within both the draft accounts initially presented for audit and the revised accounts. We would have expected these points to have been noted and resolved by internal quality checks, in particular the comparison of prior year accounts to current year draft to determine whether large movements are in line with expectations. Had these checks been performed our view is that the draft accounts authorised for issue and presented for audit would not likely have included so many material inaccuracies.

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

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 made 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 at the end of each financial year. We would consider it to be best practice for this to be done to ensure that any potential related parties can be easily identified.

Group matters

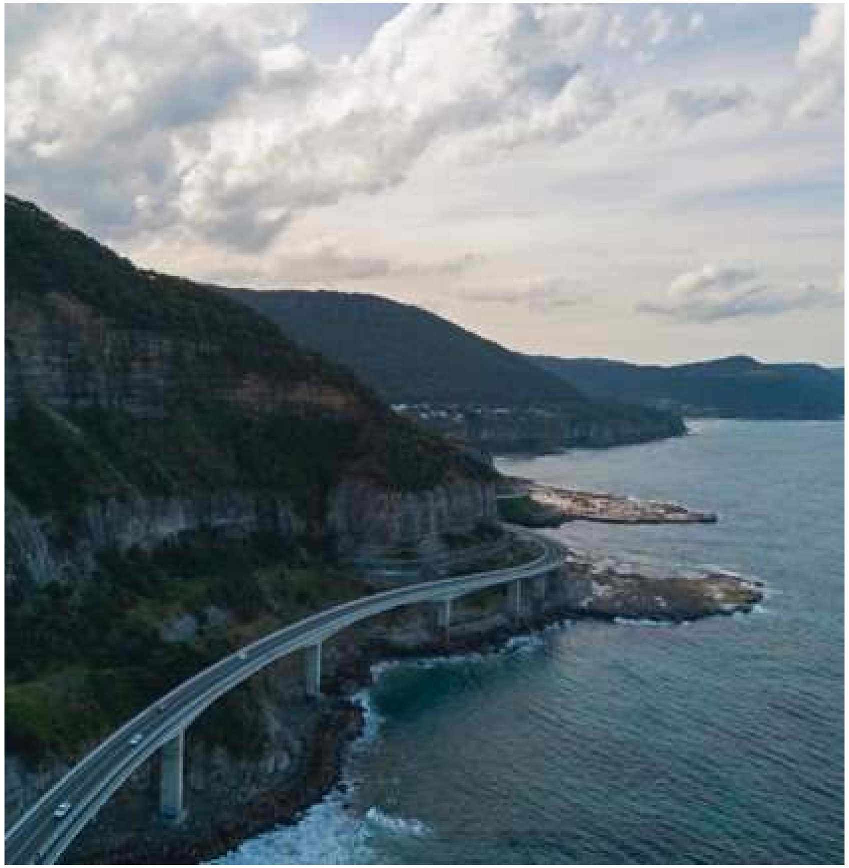
Following review of the component auditors’ reporting we were satisfied with the quality of their work and can confirm:

- 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



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

We have identified and agreed nine unadjusted audit differences as a result of our work. These would increase the deficit on the provision of services and decrease net assets by £369,000 if adjusted.

The general fund balance would decrease by £369,000 if these audit differences were adjusted.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services before unadjusted audit differences	24,117				
1: Additional claims information received relating to NNDR appeals provision calculation					
DR Collection fund Adjustment account				168	
CR Business rates appeals					(168)
2: Unsupported Revaluation reserve adjustment					
DR revaluation reserve				1,187	
CR Capital Adjustment Account					(1,187)
3: Extrapolated debtors error due to values included in Debtors not being a valid Debtor					
DR Income		233			
CR Debtors				(233)	
4: Incorrect treatment of intragroup balances on consolidation					
DR Creditors				126	
CR Debtors					(126)
Impact on provision on services carried forward		233			

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Impact on provision on services brought forward	233				
5: Debtors more than 6 years old, irrecoverable under statute, not provided for in 2018/19					
DR Income		91			
CR Debtors					(91)
6: HRA Valuation - Unexplained difference between Working Paper and Accounts					
DR PPE - HRA valuation				57	
CR Revaluation reserve					(57)
7: Estimated decrease in value of PPE not revalued in the year.					
DR Revaluation reserve				401	
CR PPE Valuation					(401)
8: Property incorrectly classified as Investment property					
DR Other land and buildings				46	
CR Investment properties					(46)
Impact on provision on services carried forward	324				

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Impact on provision on services brought forward	324				
9: Extrapolated error relating to repairs and maintenance costs being incorrectly recorded as PPE additions					
DR Repairs and Maintenance		45			
CR PPE Additions					(45)
Total adjustment to deficit on provision of services	369				
Deficit on the provision of services if above issues adjusted	24,486				

Impact on the General Fund balance and HRA balance	General Fund balance £'000	HRA balance £'000
Balance before unadjusted audit differences	4,817	13,132
Impact on deficit on the provision of services above	(369)	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	**4,448**	**13,132**

Contents

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the Prior year

	Income and expenditure			Statement of Financial Position	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
1: Correction of impairment reversal incorrectly posted to Revaluation reserve and not CIES					
DR Revaluation reserve				**1,916**	
CR **CIES Reserves**					(1,916)

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

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

The following unadjusted disclosure matters were noted:

- The figure for the 'reversal of revaluation losses included in the surplus of deficit on the provision of services in relation to capital expenditure' does not agree to adjustment in the Capital Adjustment Account by £1.317 million in 2018/19 and £1.277 million in 2017/18
- There are also a number of trivial variances between different areas of the accounts in both years that would be expected to agree in a well prepared set of financial statements.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

There are 13 in year audit differences identified by our audit work that were adjusted by management. This decreased the draft deficit on the provision of services by £107,000 and decreased net assets by £401,000. There was no impact on the general fund balance as the impact of the adjustment were removed via the adjustments between accounting basis and Funding basis under regulation in the movement in reserves statement.

In addition, management also identified that they wished to move £1.7 million from the general fund to earmarked reserves as part of their year-end financial management process, however this was not included in the reserves note prior to the authorisation of the accounts for issue.

Six errors relating to the prior year have also been identified during the course of the audit and have been adjusted. Four of these are material and in line with the requirements of ISA 710 we request that the Committee reports these to the predecessor auditors. The remaining two are immaterial but when combined with the unadjusted error on page 23 would have exceeded materiality and therefore the Council chose to adjust two so the unadjusted errors would not exceed the materiality level.

ADJUSTED AUDIT DIFFERENCES: CURRENT YEAR

Details for the current year

	Income and expenditure			Statement of Financial Position	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
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: Movement to Earmarked reserves					
DR General Fund reserves				1,700	
CR Earmarked reserves					(1,700)
4: Group Accounts HTS pension reserve incorrectly classified as an unusable reserve					
DR Useable reserves				13,174	
CR Unusable reserve					(13,174)
Adjusted audit differences carried forward		1,052			

ADJUSTED AUDIT DIFFERENCES: CURRENT YEAR

Details for the current year

Adjusted audit differences	Income and expenditure NET DR/(CR) £'000	Income and expenditure DR £'000	Income and expenditure (CR) £'000	Statement of Financial Position DR £'000	Statement of Financial Position (CR) £'000
Adjusted audit differences brought forward		1,052			
5: Misclassification of Grants received in advance as Creditors					
DR Creditors				981	
CR Grants received in advance					(981)
6: Misclassification of expenditure within the HRA					
DR Supervision and Management		5,818			
CR Loss on sale of HRA assets			(5,818)		
7: Correction of impairment reversal incorrectly posted to Revaluation reserve and not CIES					
DR Revaluation reserve				416	
CR Impairments charged to Cost of Service			(416)		
8: Reversing revaluation increase incorrectly recognised on Asset Under Construction					
DR: Revaluation increase				875	
CR: Assets under construction					(875)
9: Reclassification of impairments losses incorrectly charged to CIES and not revaluation reserve					
DR: Revaluation reserve				937	
CR: Impairments charged to Cost of Service			(937)		
Adjusted audit differences carried forward		6,870	(7,171)		

Contents

ADJUSTED AUDIT DIFFERENCES: CURRENT YEAR

Details for the current year

Contents

	Income and expenditure			Statement of Financial Position	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences brought forward		6,870	(7,171)		
10: Correction of Building misclassification					
DR: Other land and buildings				130	
CR: Assets under Construction					(130)
11: Amending incorrect accounting treatment for receipts in advance					
DR Creditors				2,526	
CR Debtors					(2,526)
12: Reversing incorrect Enterprise Zone land entry					
DR: Surplus on revaluation				10,684	
DR: MIRS: Other Comprehensive income and expenditure				10,684	
CR: PPE Other land and Buildings					(10,684)
CR: Capital adjustment account					(10,864)
Adjusted audit differences carried forward		6,870	(7,171)		

ADJUSTED AUDIT DIFFERENCES: CURRENT YEAR

Details for the current year

Adjusted audit differences	NET DR/(CR) £'000	Income and expenditure DR £'000	Income and expenditure (CR) £'000	Statement of Financial Position DR £'000	Statement of Financial Position (CR) £'000
Adjusted audit differences brought forward		6,870	(7,171)		
13: Updated IAS19 figures for the removal of HTS pension entries and addition of Kier Harlow/ Rainbow pension entries					
A: Adjusting interest costs and admin expenses on pensions following receipt of revised IAS19 report					
CR Pensions Reserve					(31)
DR Interest Costs (Pensions - CIES)		32			
CR Administration Expenses (Pensions)			1		
B: Adjusting interest costs and admin expenses on pensions following receipt of revised IAS19 report					
DR MIRS -OCI (Actuarial gains/losses)				2,849	
CR Pensions reserve					2,849
C: Removal of HTS Liability and assumption of Kier/ Rainbow Liability					
DR Pensions Liability HTS				32,998	
CR Pensions Liability Kier/ Rainbow					(31,555)
CR: Pensions reserve				1,443	
D: Removal of HTS plan assets and recognition of Kier/ Rainbow Liability					
DR Pensions Liability - Kier / Rainbow				43,654	
DR Pensions reserve				(947)	
CR Pensions Liability - HTS					(44,601)
Adjusted audit differences		6,902	(7,172)		

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ADJUSTED AUDIT DIFFERENCES: CURRENT YEAR

Details for the current year

	Income and expenditure			Statement of Financial Position	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences brought forward		6,902	(7,172)		
14: Unidentified revaluation reserve movements					
DR: Deficit on Revaluation of Property Plant and Equipment assets (CIES)		63			
CR Revaluation Reserve					(63)
Adjusted audit differences		6,965	(7,172)		

ADJUSTED AUDIT DIFFERENCES: PRIOR YEAR

Details for the prior year

	Income and expenditure			Statement of Financial Position	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
1: Grossing up Errors between Debtors and Creditors where items relating to 2018/19 were included in the 2017/18 accounts					
DR Creditors (payments received in advance)				2,721	
CR Debtors					(2,019)
CR Grants received in advance					(702)
2: HTS Pensions adjustment					
DR Pensions reserve				31,988	
CR CIES			(1,663)		
CR Pension Liability					(30,325)
3: Correction of Impairment losses not posted to CIES					
DR revaluation reserve				1,036	
CR CIES reserves					(1,036)
4: Phone mast licenses incorrectly recognised as investment properties					
DR Capital adjustment account				567	
CR Investment Properties					(567)

ADJUSTED AUDIT DIFFERENCES: PRIOR YEAR

Details for the prior year

Adjusted audit differences	Income and expenditure NET DR/(CR) £'000	Income and expenditure DR £'000	Income and expenditure (CR) £'000	Statement of Financial Position DR £'000	Statement of Financial Position (CR) £'000
5: Impact of EZ land being incorrectly accounted for in prior years					
DR: PPE – Other land and buildings				11,897	
CR: Revaluation reserve					(1,632)
CR Capital adjustment account					(10,187)
DR CIES -Disposal		322			
CR MIRS - OCI					(400)
6: Impact of Keir Harlow/ Rainbow Pensions being incorrectly treated by Actuary					
Dr Pensions Liability – Plan assets				40,359	
CR Pension Liability - Obligations					(31,323)
Cr Pension Reserve					(9,036)
Adjusted audit differences	(1,341)	322	(1,663)		
Revised deficit on provision of services	24,117				

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:

- The Pension reserve for HTS was incorrectly treated as an unusable reserve when the guidance states that pension reserves in companies form part of their Profit and Loss reserve which should be treated as usable (£13.173m note G6)
- A number of incomplete accounting notes in the initial set of accounts provided for audit, including notes to the group accounts and related party transactions.
- The EFA provided for audit did not agree to the supporting working papers and other entries in the accounts
- Amendments made to the accounts following initial audit queries were not always followed through to the relevant notes.

Other reporting matters

REPORTING ON OTHER INFORMATION

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.	We have no matters to report in relation to the consistency of the Narrative report with the financial statements and our knowledge. We asked the Council to update the Events After the Balance Sheet Date note to reflect the outbreak of Covid-19 in the UK and the associated potential impacts on the Council.
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

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.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline. Due to the delays in completing the Council's audit we are no longer required to submit an assurance statement as the Whole of Government accounts for 2018/19 have already been laid before Parliament.

OVERVIEW

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.

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.

As noted in our Audit Plan we did not identify any significant risks relating to Use of Resources. We have carried out a risk update and have no changes to make to our use of resources assessment for 2018-19.

SIGNIFICANT DEFICIENCIES

Significant Deficiencies

Area	Observation & implication	Recommendation	Management response
Preparation of financial statements	Our initial review of the draft financial statements identified a significant number of issues, both in relation to compliance with the code, casting and reconciliations to working papers.	We recommend management introduce a number of measures, whereby: • The accounts are reviewed compared to prior year and expectations based on known movements and any unexpected variances are reviewed and confirmed. This review should be evidenced including the resolution to any queries raised. • All working papers are reconciled to the draft financial statements. • The accounts are reviewed for internal consistency between the main statements and notes and within relevant notes.	This will be carried out for the 2019/20 audit.
Quality of working papers	Our review and testing of working papers has identified a significant number of errors including figures not agreeing to the draft statements or appropriate evidence not being provided.	We recommend a review of all working papers is completed before provided for audit.	This will be carried out for the 2019/20 audit.
PPE accounting	Our review and testing of the accounting entries related to PPE and the associated reserve accounting has identified a number of errors in the approach undertaken by the council and that manual adjustments were made to the PPE entries which were not made to the PPE accounting system. In addition these adjustments were not all compliant with the CIPFA Code of Practice.	We recommend that the Council ensures all adjustments are made to the PPE accounting system to ensure that the accounts and system agree. All entries made to the accounts should be in line with the requirements of the CIPFA Code of Practice	A review of the entries made on the system and working papers by a senior officer with a good understanding of the Code requirements will be carried out. Training and support will be provided to the officers responsible for this area of closure.

OTHER DEFICIENCIES

Contents

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.	A check should be put in place to confirm that the staff member authorising the set up of a new debtor has the authority to do so.	The sales invoicing process will be reviewed to determine if an authorisation step can be introduced.
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.	Journals should be authorised once entered onto Agresso to ensure that they have been correctly entered.	The Journals process will be reviewed to determine if an authorisation step can be introduced.
Evidence of review of council tax and NNDR reconciliations	A reconciliation is carried out of council tax and NNDR 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 transactions	The Council does not currently obtain updated declarations of interest at the end of 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.	The Council should 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.	An annual request for information will be made in accordance with the Code. If this hasn't been done for 19/20 we'll review if this can be done, but if not it will definitely take place for the 20/21 accounts.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Debtors	There are no formal procedures for monitoring outstanding sundry debtors. The aged debtor reports are reviewed on an Ad hoc basis and the provision for bad debts has not been prepared in line with IFRS 9 requirements.	Sundry debtors should be reviewed regular basis and the provision for bad debts should be prepared in line with IFRS 9 requirements where applicable.	A finance review is currently underway and the recommendation will be considered as part of that work.
Reserves	The Council should undertake a review of reserves as currently they hold a number of earmarked reserves that are either very large compared to the potential spend or have similar objectives/ descriptions.	A full review of Earmarked reserves should be undertaken to ensure that those held are appropriate.	Reserves, their purpose and adequacy are reviewed each year alongside the preparation of the Medium Term Financial Strategy and Budget setting process. The S151 Officer is content with this process and the comments made will be considered as part of the next annual review due in the Q3 2021/22
Updating IT systems for leavers	We noted that leavers from the Council are not always disabled from Agresso and other council systems in a timely manner.	Redundant accounts and rights should be identified and revoked in a timely manner	There was a process in place whereby for leavers the Systems Team Leader would be notified by HR when someone left. This appears to have fallen down over the last year or so but we will ask for the notifications to be reinstated. The Systems Team Leader assures me that he does routinely check on user access. He has stated that only last week he deleted several users who still work for the Council but have not logged in for a while. He was surprised that there were two users still active that had left the council. Your recommendation will be fully implemented with immediate effect

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OVERVIEW

Contents

Opinion on financial statements

Our audit fieldwork is complete with the exception of the technical matter relating to non-compliance with the Code when accounting for infrastructure assets (see pages 12 & 13), which is currently the only matter preventing us from forming an opinion on the Council's financial statements.

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

We have not identified any uncorrected material misstatements that would need to be referred to in our report.

Annual Governance Statement

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.

INDEPENDENCE

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.

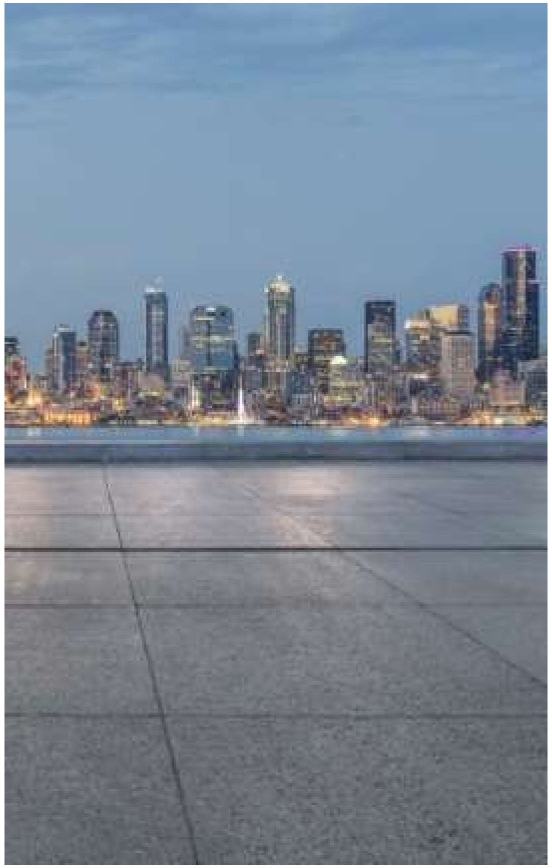
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Contents

Fees summary	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
• Code audit fee: Council financial statements and use of resources	£59,686	£59,686	£77,514
• Additional fee for Group accounts[1]	[1] TBC	£2,500	£3,980
• Additional fee for other issues	[2] TBC	-	£22,520
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	[3]£30,185	£16,825	£18,695
• Pooling of housing capital receipts return	£3,000	£3,000	£5,000
Total fees	**TBC**	**£82,011**	**£127,709**



Additional fees

[1] The current scale fee set by PSAA does not include a fee for the audit of the group accounts.

[2] Due to the additional work required as a result of receiving poor quality draft accounts and working papers for audit, the number of issues identified with the valuation of PPE, the specific complex technical issue relating to treatment of HTS pension liability in relation to the group accounts and the substantial amount of additional Manager and Partner time required to address the audit risk profile of the Council there will be an additional fee required. This will be discussed in the first instance with management and then with the Audit and Standards Committee after the completion of the audit.

[3] Additional fee of £13,360 agreed in line with our fee quote for additional testing as a result of errors found.

D

APPENDICES CONTENTS

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Contents

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

	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 at the end of each financial year or on resignation, a recommendation has been made in relation to this.

COMMUNICATION AND REPORTS ISSUED

Contents

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	13 March 2019	Audit and Standards Committee
Audit Progress Report	11 September 2019	Audit and Standards Committee
Draft Audit Completion Report	25 November 2020	Audit and Standards Committee
Interim Audit Completion Report	5 October 2022	Audit and Standards Committee
Final Audit Completion Report	TBC	Audit and Standards Committee
Annual Audit Letter	TBC	Audit and Standards Committee

OUTSTANDING MATTERS

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We have completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019, with the exception of one matter which is currently the subject of a national review and response in respect of accounting for infrastructure assets (as set out on pages 12 and 13).

There are a small number of completion procedures that cannot be completed until this is resolved and we are ready to issue the audit opinion. These are:

- Resolution of the technical issue of non-compliance with the Code in respect of accounting for infrastructure assets
- Management letter of Representation to be completed and signed
- Final review and approval by you of the statement of accounts
- Subsequent events review to the date of signing including review of the Council's consideration of the impact of Covid-19 on Income, Expenditure, Cash Flow, Reserves and related disclosures in the accounts

AUDIT QUALITY

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

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Client name and Letter headed paper

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Madams / 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' 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.

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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.

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

[date]

Eddie Johnson

Chair of the Audit and Standards Committee

[date]

FOR MORE INFORMATION:

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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.

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