

Harlow District Council

Year ending 31 March 2014

Annual Audit Letter

20 October 2014



Building a better
working world

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The Members
Harlow District Council
Civic Centre
The Water Gardens
Harlow CM20 1WG

20 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Harlow District Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with the governance of Harlow District Council in the following report:

**2013/14 Audit results report for Harlow
District Council**

Issued 3 September 2014

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Harlow District Council for their assistance during the course of our work.

Yours faithfully



Debbie Hanson
Director
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 18 February 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Harlow District Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 18 September 2014 we issued an unqualified audit opinion in respect of the Authority's financial statements.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 18 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit and Standards Committee) communicating significant findings resulting from our audit.	On 3 September 2014 we issued our report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 2 October 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Certificate issued on 2 October 2014.
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Issue a report to those charged with governance of the Authority summarising the certification (of grants claims and returns) work that we have undertaken.	Work on the Authority's housing benefit claim is still ongoing. We plan to issue our annual certification report to those charged with governance with respect to the 2013/14 financial year by 31 January 2015.
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2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on the 18 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was generally good, although further improvements could be made in relation to the cash flow statement. We have not identified any misstatements, either corrected or uncorrected, that were individually or in aggregate material to the presentation and disclosures of the Authority's financial statements for the year ended 31 Month 2014. The main issues identified as part of our audit were:

Significant risk 1: Consideration of the risk of fraud

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Our audit procedures and testing did not identify any instances of misstatement due to fraud and error.

Significant risk 2: Localisation of business rates

There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement were not clear at the time the Authority was preparing its accounts, and this therefore presented a risk in terms of the financial statements. One of the main changes is that individual local authorities now need to provide for rating appeals. This includes not only claims from 1 April 2013 but also claims that relate to earlier periods.

Our audit work on this provision identified a number of issues with the Council's calculation of the provision, including:

- The estimate incorrectly included the 2014-15 element of the 2010 rateable values, overstating the provision by £0.94 million.
- The estimate did not consider the impact of appeals not yet made. Officers undertook further analysis of the data used to calculate the provision, and concluded the provision was understated by £0.95 million.
- The Council included within its balance sheet the full value of the provision recorded in the collection fund, rather than its own share of the provision. The provision in the Council's balance sheet was therefore overstated by £2 million.

Adjustments were made to the financial statements to correct these matters. We are satisfied that the amended business rates appeals provision had been calculated on a reasonable basis in line with the requirements of relevant international accounting standards (IAS 37).

Significant risk 3: Accounting for property, plant and equipment

Our audit work on property, plant and equipment identified a number of areas where amendments were required to the draft accounts, including:

- The incorrect disclosure of a depreciation charge of £27.6 million on assets accounted for through the Housing Revenue Account and the consequential amendments to associated reserve movements and disclosure notes on asset values.
 - Property, plant & equipment values were overstated by £29 million as a result of an input error
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when reflecting data received from the Council's valuer in the fixed asset register. Again, corresponding corrections were made to the reserve movements and disclosure notes on asset values.

The capital accounting requirements set out in the CIPFA Code of Practice on Local Authority Accounting mean that these adjustments have had no impact on the useable reserves available to the Council.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 18 September 2014. Our audit did not identify any significant matters.

We did however note that, along with many other local authorities, Harlow is facing significant financial challenges over the next four years. The Authority's external funding sources are reducing and are subject to change and uncertainty in future years. Some of the main areas of uncertainty relate to:

- ▶ Future levels of business rates income.
- ▶ Future funding through the New Homes Bonus.
- ▶ Level of Government funding through the Revenue Support Grant (RSG) and Baseline Funding (business rates).

The Authority has a strong track record of delivering savings and meeting its budget. At 31 March 2014, the Authority's general fund balances, which are available to meet unforeseen circumstances, stood at £4.8 million, which is above the minimum level of £2.5 million determined by the Head of Finance. Earmarked general fund reserves stood at £9.3 million.

The Authority has set a balanced budget for 2014/15, with no planned use of balances. Recurring efficiency savings of £1.5 million are required to achieve this budget. While good progress has been made in identifying the savings necessary to bridge the budget gap in 2014/15, over the period 2015/16 to 2018/19 further savings of £5.3 million are required. Officers are aware of the financial challenges faced by the Authority in future years, and are developing plans to identify and deliver further savings. Members need to be aware of the future financial pressures faced by the Authority and consider carefully the impact of any decisions they make on the ongoing sustainability of the Authority's financial position and its ability to maintain service levels in future years. Whilst the Authority's reserve balances provide some flexibility to manage the financial position, it is likely that a number of difficult decisions will need to be made in key service delivery areas to achieve the necessary level of savings.

2.3 Whole of government accounts

We reported to the National Audit office on 2 October 2014 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

2.5 Certification of grants claims and returns

We will issue the Annual Certification Report for 2013/14 in January 2014.

2.6 Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Planned fee (£)	Scale fee (£)	Final (£)
Code audit work	102,452	102,452	102,452
Certification of claims and returns	25,326	25,326*	see note below**
Non-Code work	Nil	N/A	Nil

* Since we issued our Audit Plan, the Audit Commission have reduced the scale fees for certification work by £3,174. The revised scale fee noted above reflects the removal of council tax benefit from the benefit subsidy system.

** Work on the certification of claims and returns is not yet complete. We will report our final fee for the certification work in our report to be issued by 31 January 2015.

We confirm that we have not undertaken any non-audit work.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

We have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

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