

Harlow District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Tel: + 44 1582 643000
Fax: + 44 1582 643001
ey.com

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

26 October 2015

Dear Members

Annual Audit Letter 2014-15

The purpose of this annual audit letter is to communicate the key issues arising from our work to Members and external stakeholders, including members of the public.

We reported the detailed findings from our audit work in our 2014-15 Audit Results Report. This was presented to the Audit and Standards Committee, representing those charged with governance, on 9 September 2015. We do not repeat those findings here.

The matters reported here are those we consider most significant for Harlow District Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Debbie Hanson
Director
For and on behalf of Ernst & Young LLP
Enc.

Contents

1. Executive summary	1
2. Key findings	3
3. Control themes and observations	6
4. Looking ahead	7
5. Fees	8

Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

Our 2014-15 audit work was undertaken in accordance with our Audit Plan issued in February 2015 and was 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 Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having 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, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Harlow District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 18 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 18 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	We have no issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	We have no issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	We have no issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was presented to the Audit and Standards committee on 9 September 2015.

Issued 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.

We issued our certificate on 18 September 2015.

In December 2015 we will issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

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

We audited the Council's Statement of Accounts in line with the 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 18 September 2015.

Our detailed findings were reported to the Audit and Standards Committee on 9 September. Our audit work identified a small number of matters, including:

- ▶ A misclassification between tangible and intangible assets. The Council decided not to correct this error and there was no impact on the overall level of assets reported in the balance sheet.
- ▶ A limited number of disclosure errors. All of these were corrected.

There were no items that we considered to be material either individually or in total to the accounts.

In our view, the quality of the process for producing the accounts, including the supporting working papers was generally good.

Significant risk 1: Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

We designed and performed appropriate audit procedures to obtain reasonable assurance that the financial statements as a whole are free of material misstatement.

Findings:

-
- ▶ We did not identify any material misstatements, evidence of management bias, or significant or unusual transactions in our testing of journals and estimates.
 - ▶ We did not identify any instances of expenditure being incorrectly classified between revenue and capital
-

Significant risk 2: Property asset valuation and accounting

The Council holds a significant number of property assets. The valuation of these assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements.

Findings:

- ▶ We assessed the reliability of the work management's experts, validating their work against information provided to us by our own valuation specialists. We concluded we could place reliance on the work undertaken by management's expert.
 - ▶ We concluded that the evidence available to support the valuation of property, plant and equipment was sufficient and reliable, and that changes in the value of those assets had been correctly reflected in the Council's accounting systems and financial statements.
-

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We did not identify any significant risks in relation to these criteria, but did identify the Council's financial resilience as an area that we would consider in more detail as part of our value for money conclusion. We undertook a review of the Council's Medium Term Financial Strategy (MTFS) and the assumptions included within it. We also assessed the level of reserves (both general fund and earmarked) that the Council has at the 31 March 2015.

We issued an unqualified value for money conclusion on 18 September 2015.

A summary findings and conclusions from this work are set out below:

- ▶ The Council set a balanced budget for 2015-16 in February 2015. The Council's latest MTFS identifies a cumulative budget gap in the financial years 2016-17 and 2017-18 of £2 million. The assumptions made by the Council in determining its budget are appropriate, and the Council does not rely on as yet uncertain funding streams to balance its base budget (for example funding from the New Homes Bonus). We are satisfied that the Council's has established appropriate budgetary control procedures, and that further work is planned over the summer of 2015 to address the budget gaps in future years.
- ▶ The level of reserves held by the Council at 31 March 2015 covers the budget gap identified within the MTFS. However, the use of reserves is not a sustainable strategy to address underlying budget gaps. The Council is clearly aware of this and is continuing its work to formalise the savings plans it is developing to address future budget gaps, and maintain appropriate levels of reserves.

2.3 Whole of Government Accounts

The assets and liabilities held by the Council, and its income and expenditure, are below the specified audit threshold of £350 million. Therefore we were not required to audit the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014-15 financial statements from members of the public.

2.6 Other powers and duties

We did not identify any issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit and Standards committee on 9 September. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We have not yet completed our work on the certification of the claims and returns. We will issue our Annual Certification report for 2014-15 in December 2015.

.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. We have not tested the individual system controls of the Council as we have adopted a fully substantive approach to our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Council's arrangements for the production of its financial statements. We have outlined what we think are two of the main challenges below.

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016-17 sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost. This is a change from the existing requirement to account for these assets under Depreciated Historic Cost. This change is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have assets which fall into the definition. This could include, for example, footways and cycle ways, housing revenue accounts (HRA) infrastructure, unadopted roads on industrial or HRA estates, and street furniture.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p>	<p>The Council should consider whether it holds any assets that would be classified as highways network assets and, if so, whether they have the necessary information to implement the changes in accounting for these assets from 1 April 2016.</p> <p>If the impact of this change in accounting policy is material, the Council would also need to restate the balances for these assets as at 1 April 2015.</p>
<p>Earlier deadline for production and audit of the financial statements from 2017-18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p>

5. Fees

Our fee for 2014-15 is in line with the scale fee set by the Audit Commission:

	Final fee 2014-15	Scale fee 2014-15
Total Audit Fee – Code work	£103,352	£103,352
Total Audit Fee – Certification of claims and returns	£27,970	£27,970

Our work on the certification of claims and returns is not yet complete. We will report the final fee for this work in our Certification Report in January 2016.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com