



Report to the Audit Committee

TENDRING DISTRICT COUNCIL

Audit Completion Report: Year ended 31 March 2019

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WELCOME

Introduction

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We have pleasure in presenting our Audit Completion Report to the Audit 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 the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of our audit of the 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 Committee meeting and to receiving your input.

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

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

Aphrodite Lefevre
Director, for and on behalf of BDO LLP

25 July 2019



Aphrodite Lefevre
Engagement lead

t: +44(0)1603 756909
m: +44(0)7715 487411
e: Aphrodite.Lefevre@bdo.co.uk



Nuwan Indika
Audit Manager

t: +44(0)1473 320807
m: +44(0)7966 243886
e: Nuwan.Indika@bdo.co.uk

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

OVERVIEW

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

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



Overview

Our audit work is in progress and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements and use of resources for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed on page 35 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified. Subsequent to our Audit Plan to you dated 13 March 2019, we have downgraded the risk level from ‘Significant’ to ‘No risk of material misstatement’ in respect of the presumed risk of fraud in relation to recognition of fees and charges income and revenue and capital grants that are subject to performance conditions. Upon receipt of the draft financial statements and detailed working papers, we have refined our risk assessment which identified that we can rebut the above audit risks.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements and use of resources as set out on page 28.

THE NUMBERS

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Final materiality

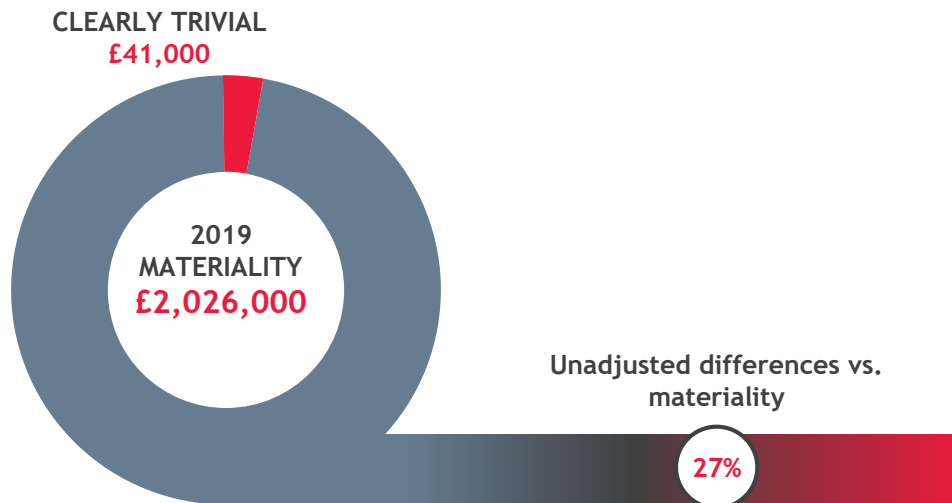
Final materiality was determined based on gross expenditure. This was updated from our Audit Plan to reflect final amounts in the financial statements. This decreased the materiality from £2,076,000 to £2,026,000 due to decrease in gross expenditure from the prior year.

Material misstatements

We did not identify any material misstatements from our audit.

Unadjusted audit differences

We identified one audit adjustment for £548k which, if posted, would not change the surplus on the provision of services. The adjustment is in respect of the difference between the pension fund actuary's estimate of fund assets at the year end the actual fund asset valuation at the year end. This is considered to be outside the control of Tendring District Council and due to the short timetable for finalisation of IAS 19 report by the actuary.



OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year. IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers* were first implemented during the year. However, there has not been any material impact from these new standards.
- Our audit work on the Council's going concern assessment is currently on going. We will consider whether the disclosures are deemed sufficient.
- 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.

Note our audit work is still ongoing and subject to internal quality reviews. We will provide the committee with a verbal update at our meeting on the 29th July.

Other matters that require discussion or confirmation

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

Independence

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



AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 13 March 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. As set out on page 4 we have subsequently rebutted the presumed risk of fraud in relation to the recognition of revenue from fees and charges, and capital and revenue grants that are subject to performance conditions. The below risks include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Expenditure recognition	Significant	No	No	No	No	No
Property, Plant & Equipment and Investment Property valuation	Significant	Yes	Yes	No	No	Yes - management representation on valuation of properties
Valuation of pension assets and liabilities	Significant	Yes	Yes	Yes - unadjusted	No	Yes - impact of GMP and McCloud. Management representation on the reasonableness of valuation assumptions
Related party transactions	Normal	No	No	No	No	Yes - management representation on accuracy and completeness of related party transactions

 Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

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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:

- Determined key risk characteristics to filter the population of journals, using our IT team to assist with the journal extraction.
- Using our data analytics software BDO Advantage, reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation.
- Reviewed accounting estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.
- Reviewed any significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual to obtain an understanding of the business rationale of any such transactions.
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Subject to the completion of reviews by engagement manager, director and quality control partner:

From the work completed we have identified no evidence of systematic bias or management override in the processing of journals entries and other adjustments, or making of significant accounting estimates.

We have not identified any unusual transactions or transactions that are outside the normal course of business for the Council.

No indications of bias or deliberate misstatement from the schedule of unadjusted audit differences.

EXPENDITURE RECOGNITION

Under Practice Note 10 issued by FRC there is a presumption that expenditure recognition presents a fraud risk.

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk. We have rebutted this risk in respect of revenue.

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 was identified as being relevant to cut-off of expenditure, where testing has been focussed.

Work performed

We carried out the following planned audit procedures:

- Carried out testing of an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been recorded.

Results

Subject to the completion of reviews by engagement director, manager and quality control partner, our testing on expenditure cut off did not identify any missing or incorrectly treated expenditure.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
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PROPERTY, PLANT AND 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

Risk description

Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

The Council applies an annual revaluation process under which the assets that had significant change in value during the year are subject to full revaluation and all other assets are revalued on a desktop basis. All assets are subject to full revaluation at least every 5 years.

Due to the significant value of the Council’s land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and reviewed 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 accuracy and completeness of asset information provided to the valuer such as floor sizes; and
- Reviewed assumptions used by the valuer for reasonableness and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual.

Results

From our review of the instructions provided to the external valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.

We reviewed a sample of in-year revaluations and we are satisfied that the valuation bases used are appropriate.

Our review of the accuracy and completeness of information provided to the actuary did not identify any issues.

We are satisfied that the overall movement in property values in respect of council dwellings, other land and buildings and investment properties is in line with relevant market indices.

Our review of the reasonableness of valuation assumptions applied is noted on the following page.

Please note our work is subject to internal quality reviews, we will provide a verbal update to the committee should this lead to any further findings.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY VALUATION

Continued

Significant accounting estimates/judgements:

Overview

Council dwellings are valued by reference to open market value less a social housing discount.

Land and buildings are valued by reference to existing use market values.

Some specialist buildings are valued at depreciated replacement cost by reference to building indices.

Investment properties are valued by reference to highest and best use market value.

Council dwellings

For council dwellings, the valuation was based on the beacon property basis. This is calculated, firstly dividing the housing stock into asset groups (large groupings of properties or estates), then subdividing these asset groups into archetype groups (dwellings with similar characteristics). A beacon property is then selected and valued from each archetype group to form a valuation opinion on the entire archetype group. As evidenced by the valuation report the valuation is supported by extensive market research, discussion with local agents and internet searches on the “Rightmove” website and the Land Registry.

The valuation of council dwellings has resulted in an overall net revaluation loss of £300k, which represents an average decrease of approximately 0.2%. We have compared this to the house price increase for East of England region given in the Gerald Eve report, who acts as auditor’s expert in respect of valuation of properties, which showed the residential property values for the region has not changed during the year (change of 0.0%). This demonstrates the overall movement in council dwellings per the valuation report is in within an acceptable range per the general market indices.

The valuation of council dwellings was undertaken on 30 September 2018 and the valuer has confirmed that the valuation increase since the valuation date to the year end is not material. Our work is currently on going to assess whether the movement in HRA valuation since the valuation date to the year end is within a reasonable range.

Other land and buildings (including specialist buildings)

The overall value of other land and buildings has increased by £2,855k, which represents an average increase of 6.25%. BCIS All-in TPI index is considered to be a guiding index for specialised properties which has increased by 2.8% during the year. For non-specialised properties MSCI capital value index is considered to be appropriate, which has increased by 1.7% during the year. Approximately 40% of Council’s other land and buildings are specialised properties, as such the weighted average increase of above indices is 2.1%. Had the value of other land and buildings been increased by 2.1%, this would have resulted in an increase in valuation of £959k, which represents a variance of £1,896k from the actual increase in valuation during the year. Our work is currently on going to assess whether the overall valuation is within a reasonable range.

Investment properties

Investment properties have seen an overall decrease in valuation of £800k (26%) to £2,300k. The Council has one investment property which is at 35-39 Pier Avenue. Discussions with the valuer revealed that the decrease in valuation was due to the general downturn in the retail market and the loss of the current tenant. As per the MSCI sector capital value index for retail properties, the decrease in property values during the year was 7.4%. MSCI sector rental value index for retail properties has decreased by 3.2% during the year. Although the change in valuation per the MSCI indices is below the actual decrease in the Council’s investment property, this was due to the considerations specific to the Council’s single investment property. The current valuation gives an overall rental yield which is within a reasonable range when compared to regional rental yield information and we are therefore satisfied that valuation of investment properties is reasonable.

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VALUATION OF PENSION ASSETS AND LIABILITIES

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 assets and liabilities.

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 Essex Pension Fund and the estimated future liability to pay pensions.

An actuarial estimate of the pension liability is calculated by an independent firm of actuaries with specialist knowledge and experience. 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.

The investment portfolio of the Pension Fund includes a significant proportion of assets the valuation of which may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data (for example, unquoted private equity, debt, infrastructure, timberlands and direct property investments). Due to the significance of these valuations, even a small change in assumptions and estimates could have a material impact on the overall valuation. There is a risk that valuation of pension assets may be based on inappropriate assumptions and estimates, and the share of assets allocated to the Council may not be accurate.

Updates subsequent to our Audit Plan:

Following a ruling on gender discrimination on a Lloyds case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). Actuaries estimate that this could result in an increase in pension liabilities by up to 0.3% (not material). Government has extended the 'interim solution' from December 2018 through to April 2021 to potentially fund this through an alternative long-term methodology known as 'conversion'.

Following the ruling on age discrimination on the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme, Government will have to remedy the discrimination in the LGPS.

There is a risk that the financial statements may not reflect the additional liabilities due as a result of the above legal cases.

Work performed

We carried out the following planned and additional audit procedures:

- Reviewed skills and expertise of the actuary in order to determine if we can rely on the management expert;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Checked whether any significant changes in membership data have been communicated to the actuary;
- Obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary;
- Obtained assurance from the auditor of the pension fund over the reasonableness of the valuation of pension fund assets at 31 March 2019;

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Normal risk
Significant management judgement
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Work performed (continued)

- Reviewed the percentage of assets allocated to the Council at 31 March 2019 for reasonableness;
- Agreed the disclosures to the information provided by the pension fund actuary; and
- Reviewed the impact of GMP and McCloud adjustments to the financial statements of the Council to ensure that additional liabilities have appropriately been recognised in the financial statements.

Results

Our review of skills and expertise of the actuary, alongside the assurance from PwC consulting actuary, confirmed that we can rely on the management expert.

We have agreed the disclosures in Note 31 to the financial statements to the information provided by the actuary and have identified no issues.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

The assurance letter obtained from the auditor of the pension fund confirmed that the controls to ensure data provided to the actuary for the roll forward valuation at 31 March 2019 is complete and accurate did not identify any issues.

The assurance letter from the auditor of the pension fund noted that there is a variance of £29m between the overall pension fund asset valuation estimated by the actuary for the purpose of IAS 19 reporting and the actual fund assets at 31 March 2019. Taking the Council's share of assets of the total pension fund assets, this gives a variance of £548k to Tendring District Council. We have included this as an unadjusted misstatement on page 18.

In respect of the McCloud judgement, the Council has requested an updated valuation of the gross pension liability to take account of the impact of this ruling. The updated actuary report shows the estimated impact on total liabilities as at 31 March 2019 from McCloud judgement to be £1,128k. This represents 0.65% of the total liabilities as at 31 March 2019. The Government Actuary Department (GAD) has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the fund has an average age of 46 and salaries increase at +1.5% above CPI. The estimate prepared by the actuary Barnett Waddingham has used the analysis prepared by GAD and is based on the assumption that salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. The assumptions used by the actuary in estimating the impact of McCloud judgement are considered to be reasonable and in line with the GAD review.

In respect of GMP gender equalisation, the Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 to find time to agree whether the LPGS or Government should fund these additional costs. Actuaries have not been treating these costs consistently on triennial and balance sheet valuations. We note that Barnett Waddingham has made an allowance for GMP costs in its calculation of fund liabilities and the actuary report states that the valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the actuary has assumed that the Fund will be required to pay the entire inflationary increase. These assumptions are considered to be reasonable and in line with our expected accounting treatment for the additional liability.

VALUATION OF PENSION ASSETS AND LIABILITIES

Continued

Significant accounting estimates/judgements: pension liability

Overview

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.

Changes in 2018/19

The actuarial valuation of future benefits has increased from £172,113k to £174,977k (including the impact of McCloud adjustment of £1,128k).

Changes in assumptions that have increased the gross liability include an increase CPI and future pension increases (from 2.35% to 2.45%), increases in salaries (from 3.85% to 3.95%), and a reduction to the discount rate (from 2.55% to 2.4%). Mortality assumptions have reduced by approx. 1.3 years. This has resulted in a decrease in the gross liabilities from these actuarial assumptions of £9,742k.

Discussion

The pension liability to pay future pensions has increased by £2,864k to £174,977k at 31 March 2019 (including the impact of McCloud adjustment of £1,128k).

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary.

	Actual	Expected / range	Comments
RPI increase	3.45%	3.40% - 3.45%	Reasonable
CPI increase	2.45%	2.40% - 2.45%	Reasonable
Salary increase	3.95%	--	Reasonable (derived from RPI assumptions)
Pension increase	2.45%	2.40% - 2.45%	Reasonable
Discount rate	2.4%	2.35% - 2.45%	Reasonable
Mortality - LGPS:			
- Male current	22.9 years	22.2 - 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
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

As shown above all the financial and mortality assumptions are within the expected range based on national data.

We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges. We have included specific representations that management confirm that the assumptions used reflect their understanding of the future expectations of the scheme.

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RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete or are not in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.

Risk description

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. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit Committee.

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed councillors' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

We identified that the Council has established reasonable procedures to identify related party transactions and to disclose such identified transactions in accordance with the Code of Practice. However, in relation to the members' interest the finance department relies on the register of members' interest which is published on the Council website. Currently the Council does not obtain annual declarations from members which is on the basis that onus is on the members to notify the monitoring officer of any changes without any routine reminders to send any updates. Whilst we agree with the Council's approach in principle, from a practical point of view and given the inherent risk associated with related party transactions, we consider it is appropriate to obtain an annual declaration from the members of the Council. We have included a management recommendation in respect of this matter on page 27.

From the Companies House search and from our other audit procedures we did not identify any related party transactions which have not been disclosed by management.

Our audit procedures confirmed that all identified related party transactions have appropriately been disclosed in the financial statements.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the members, Chief Executive and Deputy Chief Executive 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 did not identify 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 28 March 2019.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities. We are currently awaiting confirmation from the Council's legal department concerning compliance with laws and regulations during the financial year and up to the date of our audit work.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

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



UNADJUSTED AUDIT DIFFERENCES: SUMMARY

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

There is one unadjusted audit difference identified by our audit work which would not change the surplus on the provision of services and would decrease net assets by £548k if adjusted.

There would be no impact on the general fund balance.

Management consider the difference to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
Surplus on the provision of services before unadjusted audit differences	683				
1: Difference between the estimated pension assets and the actual pension assets at 31 March 2019.					
DR Pension reserve				548	
CR Net pension liability					548
Total unadjusted audit differences	-	-	-	548	548
Surplus on the provision of services if above issues adjusted	683				

	General Fund balance £'000	HRA balance £'000
Impact on the General Fund balance and HRA balance		
Balance before unadjusted audit differences	31,207	8,783
Impact on surplus on the provision of services above	-	-
Adjustments that would be reversed from the General Fund and HRA balance through the Movement in Reserves Statement	-	-
Balances after the above adjustments	31,207	8,783

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ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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Subsequent to the actuary issuing an IAS 19 report for the financial year, further information was available to quantify the impact of McCloud case (see page 12-13) on the Council's gross pension liability. Consequently, the Council obtained an updated IAS 19 report from the actuary. The updated actuary report shows the estimated impact on total liabilities as at 31 March 2019 from McCloud judgement to be £1,128k and the Council has recognised this additional liability in the financial statements.

The above adjustment did not affect the draft surplus on the provision of services but decreased net assets by the same amount.

There was no impact on the general fund balance as a result of the above adjustment.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Adjusted audit differences					
Surplus on the provision of services before adjustments	683				
1: Additional pension liability as a result of McCloud adjustment					
DR Pension reserve				1,128	
CR Net pension liability					1,128
Total adjusted audit differences					
Adjusted surplus on the provision of services	683	-	-	1,128	1,128

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

Matter	Comment
<p>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.</p>	<p>We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.</p>
<p>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.</p>	<p>Subject to the completion of reviews by engagement manager, director and quality control partner, we have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.</p>

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Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline.</p> <p>We are planning to submit the relevant section of the assurance statement to the National Audit Office within the reporting deadline of 13 September.</p>

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

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

As identified in our Audit Plan we assessed the following matter as being the most significant risk regarding use of resources.

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.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable resource deployment	Sustainable resource deployment	Significant	No

SUSTAINABLE RESOURCE DEPLOYMENT

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The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

Significant risk
Normal risk
Sustainable resource deployment
Informed decision making
Working with partners and other third parties
Significant control findings

Risk description

Government continues to reduce funding for local government, and this combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term.

The 2018/19 budget monitoring showed that at the end of December 2018 the actual financial results are behind the profiled budget by £2.863m, although this is largely due to timing differences of income and expenditure. It is anticipated that any adverse issues will be offset by favourable variances elsewhere within the overall budget at the end of the year.

During the last financial year the Council introduced a new long term approach to budgeting/forecast under which a long term financial forecast is prepared for a ten year period which is updated on a regular basis. At the planning stage, the most recent forecast in February 2019 showed a cumulative budget gap of £1.363m by 2022/23 and a budget surplus has been forecasted for the remaining years to 2026/27. The 2019/20 budget assumes savings required of £328k and the remaining years assume savings of £300k per year, some of which are yet to be identified. These savings targets are significant and achievement of these inherently challenging.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the long term financial forecast and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Monitored the delivery of the budgeted savings in 2018/19 and reviewed the plans to reduce services costs and increase income from 2019/20 by reviewing a sample of savings plans; and
- Reviewed the strategies to close the budget gap after 2019/20.

SUSTAINABLE RESOURCE DEPLOYMENT

Continued

Results

Financial performance 2018/19

The Council's overall outturn position for 2018/19 was a surplus of £11,395k. This is because a number of projects which were planned for 2018/19 have been carried forward to future years, and the value of these projects was £9,762k. This gives a residual surplus of £1,633k after agreed carry forwards which will be reallocated to services for future years. Some large projects which were carried forward include the Garden Communities Project with a value of £1,650k, the business investment and growth project with a value of 1,653k and some other local plans with a value of £1,124k.

2019/20 Budget and Medium Term Financial Plan assumptions

For 2018/19 the Council's net budget requirements is £13,557k. This will be met by council tax requirements of £7,955k which represents an increase of 3.07% over the amount charged in 2018/19, business rates income of £4,470k, revenue support grants £422k and collection fund surplus of £710k. Our review identified that the funding sources used within the budget are reasonable. Per 2018/19 financial statements total business rates income was £5,100k (including the allocation of the previous year surplus). The revenue support grant was confirmed to the central government financial allocations for 2019/20. The total collection fund surplus attributable to the Council in 2018/19 was £1,147k, therefore the amount budgeted for 2019/20 is considered to be reasonable. We have also reviewed the cost pressures and estimates of fees and charges and other income amounts within the budget and these appropriately reflect the known and expected positions.

The general fund capital programme for 2019/20 has been budgeted to £2,637k. This will be primarily financed by government grants £1,360k and earmark reserves of £1,113k. These amounts are considered to be reasonable based on the available information.

The Council's long term financial plans show that it will have a cumulative deficit of £3,283k over the five year period from 2020/21 to 2024/25 and then will have surpluses of £142k and £424k in the following two years. These figures are after the adjustments for planned use of reserves. The Council's savings target within the long term plan is £300k and the Council has identified savings plans worth £328k for 2019/20 all of which are on going or recurring.

Our review of the MTFs assumptions identified that these adequately reflect demographic and inflationary cost pressures, pay awards and other known cost pressures. The assumptions around funding sources are reasonable and reflect published information and Government announcements.

Reserves and balances

At 31 March 2019 the Council had General Fund balance of £31.2 million (including earmarked reserves of £27.2 million), HRA balance of £8.8 million, major repairs reserve £4.8 million and capital receipts reserve of £6.3 million, thus total usable reserves of £51.1 million. The Council has already prudently set aside money for significant risks in the forecast such as £1.758 million (NDR Resilience Reserve) and £1.0 million (Benefits Reserve), which can be taken into account during the period of the forecast if necessary. The Council holds £4.0 million in uncommitted reserves which supports its core financial position.

We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets. While there is a recognised funding gap in the long term plan, we are satisfied that the Council is making appropriate arrangements to manage this in a way that will ensure it continues to remain financially sustainable.

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings

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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 Committee.

As the purpose of the audit is for us to express an opinion on 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.

Our audit did not identify any significant deficiencies in internal controls.

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Area	Observation & implication	Recommendation	Management response
Related party transactions	<p>As set out on page 15, currently the Council does not obtain annual declarations from members which is on the basis that onus is on the members to notify the monitoring officer of any changes without any routine reminders to send any updates. Whilst we agree with the Council's approach in principle, from the practical point of view and given the inherent risk associated with related party transactions, we consider it is appropriate to obtain an annual declaration from the members of the Council.</p> <p>Not requesting annual declarations/ confirmations could result in related party relationships and transactions could go undetected.</p>	Sends an annual email/letter requesting all members to confirm whether there are any amendments to the original declarations. Obtain nil returns/responses as part of this process.	[xx]

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Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements. There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Conclusion on use of resources

We anticipate issuing an unmodified use of resources conclusion.

Conclusion relating to going concern

Our audit work on the Council’s going concern assessment is currently on going. We will provide a verbal update to the Committee.

Other information

We have not identified any material misstatements that would need to be referred to in our report. However our internal quality reviews are still ongoing, we will provide a verbal update to the committee should these lead to any new findings.

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.

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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 Council during the period and up to the date of this report are set out in the following page and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council’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 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.

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

FEES

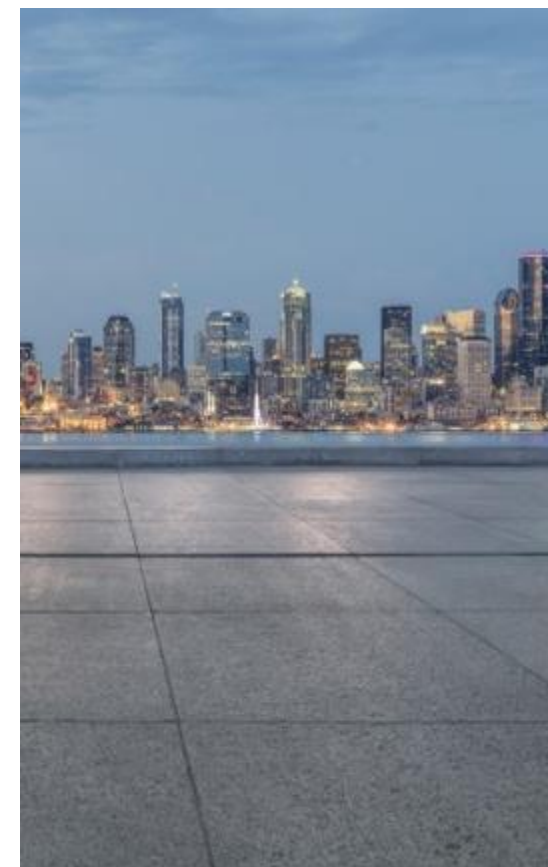
Fees summary

	2018/19	2018/19	2017/18
	Actual	Planned	Actual
	£	£	£
Audit fee			
• Code audit fee: financial statements and use of resources	45,205	45,205	⁽³⁾ 58,708
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	⁽²⁾ TBC	⁽¹⁾ 7,000	⁽³⁾ 13,110
• Pooling of housing capital receipts return	⁽²⁾ TBC	2,500	2,800
Fees for other non-audit services	Nil	Nil	Nil
Total fees	TBC	54,705	74,618

⁽¹⁾ The certification fee for Housing Benefit subsidy is on the basis that the Council performs the initial testing and we will re-perform. This also assumes three or less 40+ detailed testing during the year.

⁽²⁾ Work on 2018/19 housing benefit subsidy claim and pooling of housing capital receipts return has not yet been undertaken.

⁽³⁾ 2017/18 fee amounts are the PSAA scale fees and do not include any additional fee variations agreed subsequently with your predecessor auditor.



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RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

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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 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 Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit 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.	No exceptions to note.
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.	No exceptions to note.

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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 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
Fee letter	26 April 2018	Chief Executive and Head of Finance, Revenues and Benefits
Audit Plan	28 March 2019	Audit Committee
Audit completion report	29 July 2019	Audit Committee
Annual Audit Letter	31 August 2019	Audit Committee

OUTSTANDING MATTERS

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

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

- Completion of the audit testing in respect of:
 - Receipts cut off testing
 - Government and other grant income testing
 - Completeness of income testing
 - Payroll - members allowances, employer NIC and pension testing
 - Reconciliation of gross HRA rents and year end debtor/creditor balances to the housing rents system
 - Completion of disclosure checklist
 - Completion of consistency checklist
 - Expenditure and funding analysis
 - Recharges
 - Housing benefit income and expenditure
 - Enquiries with Council's legal department for compliance with laws and regulations, litigations and claims
 - Going concern
 - Operating lease disclosures
 - Financial instruments disclosures
 - Review of narrative report for consistency with financial statements
- Completion of partner, manager and quality control review of the audit file and clearance of review points.
- Subsequent events review
- Management letter of representation, as attached in Appendix D to be approved and signed



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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 all necessary actions to address their findings.

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

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

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

Letter of representation

[Client name and Letter headed paper]

BDO LLP
Yare House
62-64 Thorpe Road
Norwich
NR1 1RY

Dear Sirs

Financial statements of Tendring 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 Council’s financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Head of Finance, Revenues and Benefits has fulfilled his responsibilities for the preparation and presentation of the 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 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 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 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 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.

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.

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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 27 to the financial statements, there were no loans, transactions or arrangements between the Council 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 financial statements.

Accounting estimates

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements are reasonable:

a) Pension liability assumptions

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- RPI increase 3.45%
- CPI increase 2.45%
- Salary increase 3.95%
- Pension increase 2.45%
- Discount rate 2.4%
- Mortality: Current pensioners - male 21.3 years and female 23.6 years / future pensioners - male 22.9 years and female 25.4 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

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b) Valuation of housing stock, other land and buildings and investment properties

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

We confirm that the valuations applied to council dwellings and other land and buildings revalued in the year, as provided by the external 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 council tax arrears, NDR arrears and housing benefit overpayments are reasonable, based on collection rate data.

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

Richard Barrett
 The Head of Finance, Revenues and Benefits
 Date:

Alan Coley
 Chair of the Audit Committee
 Date:



FOR MORE INFORMATION:

Aphrodite Lefevre
Director

t: +44(0)1603 756909
m: +44(0)7715 487411
e: Aphrodite.Lefevre@bdo.co.uk

Nuwan Indika
Manager

t: +44(0)1473 320807
m: +44(0)7966 243886
e: Nuwan.Indika@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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