

# Public Document Pack

## Southend-on-Sea Borough Council

Department for Corporate Services

John Williams - Head of Legal & Democratic Services

Our ref:

Telephone: **01702 215000**

Your ref:

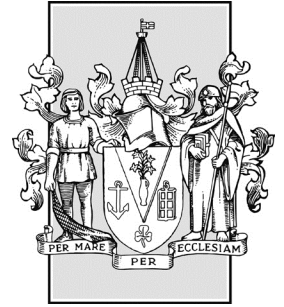
Fax: **01702 215994**

Date:

E-mail: **committeesection@southend.gov.uk**

Contact Name:

DX 2812 Southend



Dear Councillor

### **AUDIT COMMITTEE - WEDNESDAY, 21ST SEPTEMBER, 2016**

Please find enclosed, for consideration at the next meeting of the Audit Committee taking place on Wednesday, 21st September, 2016, the following report(s) that were unavailable when the agenda was printed.

<b>Agenda No</b>	<b>Item</b>
------------------	-------------

- |    |  |
|----|--|
| 5. | <b><u>BDO Report to the Audit Committee 2015-16 (Pages 1 - 38)</u></b> |
|----|--|

Report of Corporate Director for Corporate Services

Yours faithfully

Olivia Allen



# Southend-on-Sea Borough Council

Agenda  
Item No.

5

Report of Corporate Director for Corporate Services  
to  
**Audit Committee**  
on  
**21 September 2016**

Report prepared by: BDO External Auditor

---

**BDO: Report to the Audit Committee 2015/16**

---

**Executive Councillor – Councillor Moring**

---

*A Part 1 Public Agenda Item*

---

## 1. Purpose of Report

- 1.1 This report summarises the results of the work completed to date for the 2015/16 financial year with regard to:
- the opinion on the Statement of Accounts
  - the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

## 2. Recommendation

- 2.1 The Committee accepts the Report to the Audit Committee 2015/16.**

## 3. Background

- 3.1 A senior representative of BDO (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

## 4. Corporate Implications

- 4.1 Contribution to Council's Aims and Priorities

This audit work contributes to the delivery of all the Council's Aims and Priorities.

- 4.2 Financial Implications

The fee for the audit work is set by Public Sector Audit Appointments Limited and agreed with the Council before the start of the audit. Issues arising during the course of the audit can impact on the audit fee payable.

- 4.3 Legal Implications

The Council is required by statute to have an external audit of its activities that complies with the requirements of the Code of Audit Practice (the Code) issued by the National Audit Office. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

4.4 People and Property Implications

None

4.5 Consultation

The contents of this report has been discussed and agreed with the Corporate Director for Corporate Services and the Head of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that this statutory requirement is not met.

4.8 Value for Money

The report includes the auditor's conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion)

4.9 Community Safety Implications and Environmental Impact

None

**5. Background Papers**

None

**6. Attachment: BDO Report to the Audit Committee 2015/16**



3

# SOUTHEND-ON-SEA BOROUGH COUNCIL

REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2016 - Issued to the Audit Committee - September 2016

## PURPOSE AND USE OF THIS REPORT

We present our report to the Audit Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

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 providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, 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.

This report has been prepared solely for the use of the Audit Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.



# CONTENTS

SUMMARY	4	APPENDICES	
KEY AUDIT AND ACCOUNTING MATTERS	5	I. DEFINITIONS	24
SUMMARY OF AUDIT FINDINGS	15	II. AUDIT DIFFERENCES	25
OUTSTANDING MATTERS	17	III. RECOMMENDATIONS AND ACTION PLAN	26
 OTHER REPORTING MATTERS	18	IV. MATERIALITY	30
CONTROL ENVIRONMENT	19	V. INDEPENDENCE	31
WHOLE GOVERNMENT ACCOUNTS	20	VI. FEES SCHEDULE	32
USE OF RESOURCES	21	VII. DRAFT REPRESENTATION LETTER	33
		VIII. AUDIT QUALITY	35

# SUMMARY

## AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the resolution of matters set out in the outstanding matters section of this report (page 17).
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work.
- One additional significant audit risk was identified during the course of our audit procedures subsequent to our audit planning report to you dated March 2016. This related to the indexation of property, plant and equipment (page 7).
- Our materiality levels have not required reassessment since our audit planning report was issued but have been updated to reflect the gross expenditure reported in the draft financial statements presented for audit.

## KEY AUDIT AND ACCOUNTING MATTERS

- We have identified one unadjusted error from our testing. This is in relation to the Bad debt provision calculation. We have compared the provision included within the financial statements to the historical collection rates and have included the potential error in Appendix II.

## AUDIT OPINION

- Subject to the successful resolution of matters set out in the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016.
- We have no matters to report in relation to the annual governance statement.
- Our review of whether the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources is ongoing. We will provide a verbal update to the Audit Committee on 21 September 2016.

## OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

- Our review of the Council's Whole of Government Accounts (WGA) data collection tool is still in progress.
- Our certificate can only be issued once we have concluded on any work in respect of Objections received from members of the public. One such Objection has been received in relation to rental income from Southend Airport. We do not consider the substance of the Objection to be material to the financial statements and, as a result, this will not impact our ability to issue an opinion on the financial statements.
- Our observations on the quality of the audit and our audit independence and objectivity and related to matters are set out in Appendices VIII and V.



# KEY AUDIT AND ACCOUNTING MATTERS

## SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated March 2016. In the following table these significant risks have been highlighted in red and our audit findings have been reported against them.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have identified one further significant risk in relation to the indexation applied to property, plant and equipment. This is also recorded in the table below.

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>Auditing standards presume that a risk of management override of controls is present in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments to the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias and obtained an understanding of the business rationale of significant transactions that appeared to be unusual.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made to the financial statements.</p> <p>We have identified one non material unadjusted error in relation to the calculation of the bad debt provision, we do not consider this to be as a result of bias.</p>
REVENUE RECOGNITION	<p>Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p> <p>In particular, we consider there to be a significant risk in relation to the completeness and existence of fees and charges in the CIES.</p>	<p>Our review of revenue recognition has focused on testing completeness and existence of fees and charges across all service areas within the CIES. We substantively tested an extended sample of fees and charges to supporting documentation to confirm that income had been accurately recorded and earned in the year.</p> <p>We substantively tested an extended sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period.</p> <p>Testing was completed on revenue streams which are generated at the provision of a service to customers in order to gain assurance that income was materially complete and accurate.</p>	<p>No non-trivial issues have been identified by our testing of revenue from fees and charges.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p><b>HRA PROPERTY REVALUATIONS</b></p>	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets which should be accounted for.</p> <p>As part of the 5 year rolling revaluation programme, all HRA property assets were revalued in 2015/16. Upon review of these revaluation schedules during the audit planning, we identified that the upward revaluation of HRA properties totalled £40m and downward revaluation totalled £37m. Of the £37m downward movement, £16m was the write off of generic capital expenditure items for which there appeared to be a reasonable explanation. However, current market conditions for property led us to expect only upward revaluations and so the remaining downward revaluation movement of £21m was contra to our expectations and judged to be indicative of potential material misstatement.</p>	<p>We reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine that we could rely on the management expert.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate based on their usage.</p> <p>We performed a comparison of the values applied to a sample of HRA properties against the values for which equivalent properties were sold for in the private housing market.</p>	<p>Our comparison work on the values applied to each of the HRA properties sampled against the values for which equivalent properties were sold in the private housing market indicated that the values applied to all sampled properties were appropriate.</p> <p>We are satisfied that property valuations are materially correct and the basis of valuation for assets valued in the year is appropriate.</p> <p>We concluded that we were able to rely on the Council's management expert.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p><b>INDEXATION OF PROPERTY, PLANT AND EQUIPMENT</b></p>	<p>This is a new risk added following the completion of our planning work, after receipt of the draft financial statements for audit.</p> <p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets which should be accounted for.</p> <p>The Council determined that there was a material change in the value of some of their assets in 2015/16 and applied an indexation uplift to account for this change. The percentage increases applied by the Council are determined by class of asset with the highest percentage applied being 8%. However current market conditions for property lead us to believe that a number of assets will have increased in value by more than 8%. Some of the percentages applied are therefore contra to our expectations and were judged to be indicative of potential material misstatement.</p>	<p>We reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine that we could rely on the management expert to calculate these indices.</p> <p>We reviewed the indices applied by the Council, and confirmed that the basis used for calculating them was appropriate.</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appeared unusual against indices.</p>	<p>Our review of the indices applied confirmed that all indices were either in line with expectations against the price movements for similar classes of assets or were within a tolerable variance of these price movements.</p> <p>No issues have therefore been identified from our testing, with all indices applied concluded to be reasonable.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address the risks of material misstatement identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Normal risk of material misstatement** ■ **Other issue**

10

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
PENSION LIABILITY ASSUMPTIONS	<p>The actuarial assumptions used for pension valuations are subject to a high degree of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation. Essex County Council Pension Fund has engaged Barnett Waddingham as a management expert.</p> <p>We have reviewed the actuary’s report and the underlying assumptions used to calculate the year end pension liability.</p> <p>We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with the Council’s knowledge.</p>	<p>The net pension liability of the Council comprises its share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. Their estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p> <p>We are satisfied that the actuary is independent of the Council, objective and is experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are not significantly different from those being applied by the actuaries of other local authorities.</p>
PROPERTY FUNDS	<p>This is a new risk added following the completion of our planning work, after the receipt of the draft financial statements for audit.</p> <p>The Council has purchased two property funds during the year. No such funds have historically been held. We noted that the accounting treatment in respect of these funds is complicated and as the Council is accounting for these funds for the first time, we raised a risk that the funds may have been accounted for incorrectly.</p> <p>We reviewed the accounting treatment applied in respect of these funds and made an assessment of whether it is in line with IFRS.</p>	<p>We consider the accounting treatment applied in respect of the funds to be materially in line with IFRS. We are satisfied that the values appearing in the financial statements in respect of these funds are not significantly different from the expected values.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CAPITAL GRANTS AND CONTRIBUTIONS	<p>This is a new risk added following the completion of our planning work, after receipt of the draft financial statements for audit.</p> <p>The volume of income from capital grants and contributions decreased from £16m in 2014/15 to £5m in 2015/16. This decrease was outside of our expectations.</p> <p>We performed a year on year comparison of the income amounts received in respect of capital grants and contributions and obtained explanations for any significant variations identified.</p> <p>We also agreed a sample of amounts included in the current year disclosure to supporting documentation in order to confirm the appropriateness of the amounts disclosed.</p>	<p>No issues have been identified regarding the value of capital grant and contribution income disclosed.</p>
NARRATIVE REPORTING	<p>The Council is required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements.</p> <p>The Narrative Report includes additional information not previously included in the Explanatory Foreword.</p> <p>We compared the narrative report against the Code requirements to ensure that all elements of the narrative report are correctly included.</p> <p>We reviewed the narrative report to ensure consistency with our understanding of the entity and the financial statements.</p>	<p>No issues have been identified with the narrative report through the testing performed.</p>
FRAUD AND ERROR	<p>We enquired of management regarding any instances of fraud in the period and, throughout the audit, considered the possibility of material misstatements due to fraud or error.</p> <p>We are not aware of any instances of fraud other than housing benefit fraud committed against the Council.</p>	<p>Our audit procedures have not identified any material errors due to fraud.</p>

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at in the preparation of your financial statements are set out below.

We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

### ESTIMATES

#### PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and investment properties is not materially different to the current value or fair value at the Balance Sheet date.

The valuation for housing dwellings and land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices).

The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a 'highest and best use' valuation. This means that valuations may be significantly different in certain circumstances.

### AUDIT FINDINGS AND CONCLUSIONS

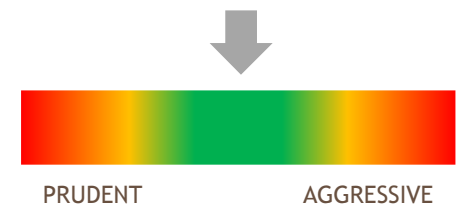
The Council engaged an external valuer to value its council dwellings and investment properties as at 1 April 2015. This resulted in a net upward revaluation movement of £4.082m in the year for PPE and a gain of £2.189m for investment properties.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.

We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.

We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.

The valuer also confirmed that there was a material movement in valuation between the valuation date and year end. A net re-valuation gain of £33.333m has been recognised in respect of this. This was corroborated by review of available market information.



# KEY AUDIT AND ACCOUNTING MATTERS

Continued

ESTIMATES

PENSION LIABILITY ASSUMPTIONS

The 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 fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.

We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.

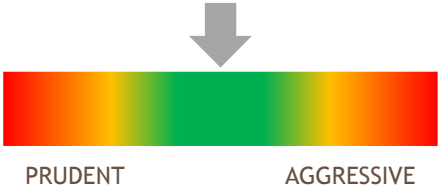
AUDIT FINDINGS AND CONCLUSIONS

As at 31 March 2016 net pension liabilities disclosed in the Balance Sheet decreased by £15.633m compared to the balance at 31 March 2015.

It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement.

A formal valuation of the Fund was carried out as at 31 March 2016.

This valuation has resulted in the significant decrease in the present value of the scheme liabilities at 31 March 2016. We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

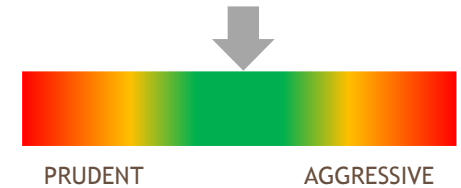


13

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p><b>ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES</b></p> <p>The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and business rates.</p> <p>The Council estimates the housing benefits overpayments impairment allowance using collection rate data. For Collection Fund debtors, the impairment allowances are based on write off rates, as credit control processes are robust and amounts are only written out after all recovery procedures are exhausted, which can take many years.</p> <p>We have reviewed management's calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile.</p>	<p>Overall we concluded that the impairment allowances for receivables are materially correct, but have not been based on historical write off rates. Based on a review of historical write off rates we concluded that the overall provision is potentially overstated by £1.687m. A non material unadjusted error has been raised in appendix II.</p> <p><b>Housing benefit overpayments</b></p> <p>The impairment allowance at 31 March 2016 is £4.290m, an increase of £0.546m from the prior year, against an overpayments balance of £6.160m. We compared this to the historical collection rates and estimate that this provision should be in the region of £2.325m.</p> <p><b>Council tax arrears</b></p> <p>The total impairment allowance for the Collection Fund at 31 March 2016 is £1.880m, an increase of £0.134m from the prior year, against total arrears of £4.993m. We compared this to the historical collection rates and estimate that this provision should be in the region of £2.651m.</p> <p><b>Business rates arrears</b></p> <p>The total impairment allowance for the Collection Fund at 31 March 2016 is £0.327m, an increase of £0.047m from the prior year, against total arrears of £2.029m. We compared this to the historical collection rates and estimate that this provision should be in the region of £0.444m.</p> <p>The total impairment allowance for other receivables where it was felt appropriate to make a provision at 31 March 2016 is £5.960m, an increase of £0.638m from the prior year, against an outstanding balance of £11.977m. We compared this to the historical collection rates and estimate that this provision should be in the region of £5.350m.</p>





# KEY AUDIT AND ACCOUNTING MATTERS

Continued

## FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
ACCOUNTING POLICIES	The accounting policies disclosed in the financial statements have been reviewed. All were considered to be in line with the Code of Practice on Local Authority Accounting 2015/16 (the Code).
IMMATERIAL DISCLOSURES	<p>A number of disclosures have not been made in the financial statements on the grounds of materiality. We have reviewed these disclosures and agree with the Council's assessment that these disclosures are not material, and have therefore been correctly excluded from the financial statements.</p> <p>Following our review of the financial statements, the accounting policies relating to these immaterial disclosures have now also been correctly excluded from the financial statements.</p> <p>We support the Council's approach to this as it improves the readability and understandability of the Statement of Accounts.</p>

15

# KEY AUDIT AND ACCOUNTING MATTERS

## Continued

### OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MATTER		COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	Audit planning report dated 17 March 2016.
2	An overview of the planned scope and timing of the audit	Audit planning report dated 17 March 2016.
3	Significant difficulties encountered during the audit	We have no matters to report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	We have no matters to report.
5	Written representations which we seek	These are reproduced at Appendix VII.
6	Any fraud or suspected fraud issues	We have no matters to report.
7	Any suspected non-compliance with laws or regulations	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure	We have no uncorrected misstatements to report.
9	Significant matters in connection with related parties	We have no matters to report.

# SUMMARY OF AUDIT FINDINGS

As at 14 September 2016

STATUS		REPORTING LEVEL				
	Not started	Significant issue				
	In progress	Raised for your attention				
	Complete	No issue identified				













  

AUDIT WORK STATUS	REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED	
	Journals		N	N	N	N
	Property, plant and equipment		N	N	N	N
	Debtors		N	N	N	N
	Cash and cash equivalents		N	N	N	N
	Short and long term investments		N	N	N	N
	Creditors		N	N	N	N
	Short and long term borrowing		N	N	N	N
	Employee benefits		Y	N	N	N
	Other expenditure		N	N	N	N
	Grant income		N	N	N	N
	Other income		N	N	N	N
	Collection fund		N	N	N	N
	Housing Revenue Account		N	Y	N	N
	Related party transactions		N	N	N	N
	Financial instruments		N	N	N	N

# SUMMARY OF AUDIT FINDINGS

As at 14 September 2016

STATUS		REPORTING LEVEL
	Not started	Significant issue
	In progress	Raised for your attention
	Complete	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
	Consolidation		N	<b>Y</b>	N	N
	Cash Flow Statement		N	<b>Y</b>	N	N
	Whole of Government Accounts		N	N	N	N
	Annual Governance Statement		N	N	N	N
	Narrative Report		N	N	N	N
	Use of resources		N	N	N	N

18

## OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the **Audit Committee** at which this report is considered:

- 1 Receipt of bank confirmations in respect of the cash balances with a number of schools, both with Lloyds and Barclays
- 2 Review and agreement of the final WGA data collection tool against the final set of financial statements
- 3 Completion of our Use of Resources assessment
- 4 Clearance of review points raised
- 5 Subsequent events review
- 6 Management representation letter, as attached in Appendix VII to be approved and signed



## OTHER REPORTING MATTERS

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

	MATTER	COMMENT
1	<p>The draft financial statements, within the Statement of Accounts, are to be prepared and provided to us for audit on <b>30 June 2016</b>.</p> <p>As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.</p>	<p>The draft financial statements, within the Statement of Accounts, were prepared and provided to us for audit on 30 June 2016.</p> <p>All required document requests were provided for audit within reasonable timeframes.</p>
2	<p>We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required to be satisfied that it is not 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>We have reviewed the draft Annual Governance Statement and are satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also satisfied that it is not 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>
3	<p>We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p>	<p>We have read all the financial and non-financial information in the Narrative Report to the financial statements. We have not identified any material inconsistencies with the audited financial statements or any information that is materially incorrect, or materially inconsistent with the knowledge acquired by us in the course of performing the audit.</p>

# CONTROL ENVIRONMENT

## Significant deficiencies

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 you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, 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 controls 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 controls.

### SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION
Payroll Amendments	Evidence to support amendments to the Payroll system (including starters, leavers and amendments to staff records) could not be found for a number of amendments during testing completed by Internal Audit. This creates a risk that incorrect or fraudulent amendments could be made.  This point was previously reported by Internal Audit.
Payroll Authorisation	The Council identified that one employee was erroneously paid £363,000 (£627,000 gross) in April 2015. The Council's controls failed to identify, prior to payment being made, that this had been input into the system erroneously. The error was subsequently identified by the Council during the process of making the payment for the PAYE/NIC amounts for this month. The error was identified before the PAYE/NIC was paid and no overpayment was made in respect of these amounts. It was identified after the employee had been paid that the net amount paid to this employee was overstated. Although the Council has controls in place to stop such payments taking place, these controls were ineffective and failed to stop the payment being made. We understand that the employee repaid the amount promptly.

Please see Appendix 3 for details of the recommendations and action plan arising from these deficiencies.

We have also noted some other deficiencies, which have been included in Appendix 3.

# WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
<p>For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350m in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.</p>	<p>HM Treasury’s WGA team issued a newsletter at the end of June to explain the delay in issuing the DCT which was released on Monday 4 July. This delay resulted in the local authorities’ deadline to submit the unaudited DCT to HM Treasury being extended to 12 August 2016 and similarly our deadline to issue our audit opinion on the DCT being extended to 21 October 2016.</p> <p>Our review of the Council’s WGA Data Collection Tool (DCT) is in progress.</p>



# USE OF RESOURCES

## Key informed decisions, deployed resources and sustainable outcomes

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). This is based on the following reporting criterion:

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

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

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

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan issued in March 2016. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<b>SUSTAINABLE FINANCES</b>	<p>Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other service delivery changes, this will have a significant impact on the financial resilience of the Council in the medium term.</p> <p>We have reviewed the latest Medium Term Financial Strategy (MTFS) which covers the four year period to 2019/20. The Council set a balanced budget for 2016/17 but this requires planned savings of £10.1 million to be achieved. The MTFS forecasts a budget gap totalling £28.1 million over the remaining three years which will need to be funded through either savings or additional revenue in order to maintain the current general fund position. This is a reduction from the MTFS published at the end of 2014/15 year which showed a budget gap of £32.4 million. The two MTFS' cover different years and the reductions is due to the gap for 2019/20 in the current MTFS being lower than the budget gap for 2016/17 in the prior year MTFS. The budget gap is forecast to arise as follows:</p> <ul style="list-style-type: none"> <li>• 2017/18: £12.4 million (increased from £10.3 million in the previous MTFS)</li> <li>• 2018/19: £8.4 million (consistent with the previous MTFS)</li> <li>• 2019/20: £7.3 million</li> </ul> <p>Although the current budget gap is significant the Council is aware of the importance of finding sustainable savings or new revenue streams.</p>	<p>Whilst the Council has identified a significant funding gap, action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans.</p> <p>Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.</p> <p>Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council is undertaking appropriate arrangements to manage this in a way that will ensure it remains financially sustainable over the period of the MTFS.</p>

# USE OF RESOURCES

## Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p><b>SUSTAINABLE FINANCES</b> (Continued)</p>	<p>Our review of the latest forecast position and assessment of whether the Council is achieving the budget is outstanding.</p> <p>We have reviewed the assumptions used in developing the MTFS and have found these to be reasonable. A prudent approach to expectations of future government funding has been adopted by the Council.</p> <p>The Council continues to maintain sufficient earmarked reserves and balances. As at 31 March 2016, the General Fund balance was £11 million which is within the Head of Finance and Resources recommended range of £10 million to £12 million. General Fund earmarked reserves were £59 million. The Council’s overall useable reserves, which include the General Fund, HRA, Earmarked Reserves (including schools) and capital resources, have increased by £7.3 million in 2015/16.</p>	

Our review of “informed decision making” and “working with partners and other third parties” is currently ongoing. At this point in time, we have no matters to report with regards to these areas.

# APPENDICES

## APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Southend-on-Sea Borough Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the members of the Audit Committee.
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: <ul style="list-style-type: none"> <li>The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting)</li> <li>Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.</li> </ul>
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

## APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

### CORRECTED AUDIT DIFFERENCES

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications have been made, as follows:

- A adjustment of £2.5m was made to gross up the additions and disposals in respect of investing activities in the note to the cash flow statement.
- An amendment of £914,000 was made to the consolidation adjustments made to the Group Balance Sheet.
- 27 An adjustment of £3.054m was made to the HRA income and expenditure statement in order to align it with the CIES.
- A reclassification adjustment of £48,000 was posted between the additional provisions made in the year and the amounts used in the year, in respect of the insurance provision.

### UNADJUSTED AUDIT DIFFERENCES

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		COLLECTION FUND		BALANCE SHEET	
		DR £'000	CR £'000	DR £'000	CR £'000	DR £'000	CR £'000
Surplus/(deficit) on the provision of services	2,575						
Surplus/(deficit) on the Collection Fund attributable to SBC	(888)						
DR / CR Bad Debt Expense			2,575	(888)			
DR Short Term Debtors						1,687	
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>							
Surplus/(deficit) on the provision of services if adjustments accounted for	2,575						
Surplus/(deficit) on the Collection Fund attributable to SBC if adjustments accounted for	(888)						

## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

### Recommendations Brought Forward from 2014/15

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG
<b>CONTROL ENVIRONMENT</b>					
<b>Payroll Amendments</b>	<p>Evidence to support amendments to the Payroll system (including starters, leavers and amendments to staff records) could not be found for a number of amendments during testing completed by Internal Audit.</p> <p>This point was previously reported by Internal Audit.</p>	Fully implement the recommendations raised by Internal Audit in their final payroll report.	The Council have been working on this throughout the year and are still working towards a resolution to the issues raised.	Sue Putt (Group Manager - HR Services)	December 2016

## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

### Recommendations arising from the current year's audit

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>FINANCIAL STATEMENTS</b>					
<b>VAT on South Essex Homes</b>	<p>Our testing identified that the accounting transactions were being posted incorrectly in respect of some of the rental income with South Essex Homes. This was due to the net income being invoiced rather than separate invoices being raised for gross income and expenditure.</p> <p>The effect of this is that income, expenditure and VAT reclaimable were all understated. This was trivial to the accounts.</p>	Raise separate invoices for income and expenditure going forward.	This approach was adopted by management as soon as the issue was raised.	Ian Ambrose (Group Manager - Financial Management)	Already implemented
<b>Posting of Re-valuation Amounts</b>	<p>We identified that the impairment recorded on an asset re-valued during the year was recorded in the CIES when it should have been posted to the re-valuation reserve as there was an opening balance in the re-valuation reserve in respect of this asset.</p> <p>The amounts involved were trivial in this instance, but there is a risk that the impairments taken to the CIES could be materially overstated if a number of similar errors were to occur.</p>	Perform a high level review of the re-valuations to ensure impairments are only taken to the CIES in respect of assets where there was no opening balance in the re-valuation reserve.	<p>As part of the 5 year rolling programme, all HRA property assets were revalued in 2015/16 including over 6,000 council dwellings with a net book value of £325m. Due to the large volumes involved the revaluations could not be applied manually line by line but had to be applied with the use of a formula. This was sample checked to ensure that it had been applied correctly but had led to £186.81 for one asset being recorded in the CIES when it should have been posted to the revaluation reserve. In other years there are fewer assets re-valued and revaluations are applied manually line by line.</p> <p>It will be ensured that this review is undertaken in future years.</p>	Caroline Fozzard (Group Manager - Financial Planning and Control)	March 2017

## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

### Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>FINANCIAL STATEMENTS</b>					
<b>Consolidation of Schools Income</b>	<p>The Council consolidates all income privately generated by the schools and the Southend Adult College into their CIES. We identified that some of the income given to the schools had been consolidated into the Council's accounts and some things that should have been consolidated had been excluded.</p> <p>The amounts involved this year were not material. There is however a risk that income could be materially under or overstated as a result of this error if it were to occur again in future years.</p>	<p>Provide the schools and colleges guidance on what should be consolidated so that the returns provided include all of the relevant information to include in the Council's accounts.</p>	<p>This guidance will be produced and sent to the schools and colleges when the requests for the income declarations are made.</p>	<p>Ian Ambrose (Group Manager - Financial Management)</p>	<p>March 2017</p>
<b>Bad Debt Provision</b>	<p>The bad debt provision has been calculated based upon the same percentages as in the prior year. These percentages have been an accurate reflection of recovery rates in previous years, but this is no longer the case.</p>	<p>Review the calculation of the bad debt provision based upon the historical collection rates.</p>	<p>Management will review the bad debt provision calculation for the 2016/17 statement of accounts and on-going.</p>	<p>Ian Ambrose (Group Manager - Financial Management)</p>	<p>March 2017</p>



# APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

## Continued

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>CONTROL ENVIRONMENT</b>					
<b>Payroll Authorisation</b>	<p>The Council identified that one employee was erroneously paid £363k (£627k gross) in April 2015. The Council's controls failed to identify, prior to the payment being made, that this had been erroneously input to the system. The error was subsequently identified by the Council during the process of making the payment for the PAYE/NIC amounts for this month. The error was identified before the PAYE/NIC was paid and no overpayment was made in respect of these amounts. It was identified after the employee had been paid that the net amount paid to this employee was overstated. Although the Council has controls in place to stop such payments taking place, these controls were ineffective and failed to stop the payment being made.</p> <p>In this instance, the employee repaid the amount they were overpaid. There is however a risk that another employee may not have done so, and that this could lead to a large outflow of resource to the council which they are unable to recoup.</p>	Undertake a thorough review process on all payroll transactions before payment is made.	Controls to prevent this happening are already in place. It will be ensured that the controls are operating effectively going forward.	Sue Putt (Group Manager - HR Services)	On-going

## APPENDIX IV: MATERIALITY

### MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	8,600,000	8,300,000
Clearly trivial threshold	215,000	207,500

Planning materiality of £8,300,000 was based on 2% of gross expenditure, using the prior year signed accounts.  
We revised our materiality in order to reflect the actual value of gross expenditure in the draft financial statements received for audit.

## APPENDIX V: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Lisa Clampin - Engagement lead	2	31/03/2020
Alison Langridge - Engagement manager	4	31/03/2023

### INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have provided services other than audit to the Council as set out in Appendix VI.

Other than the items in Appendix VI, we have not identified any potential threats to our independence as auditors. We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

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

## APPENDIX VI: FEES SCHEDULE

	2015/16	2014/15		
	£	£	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
Audit fee	142,816	195,218	N/A	N/A
Certification fee (Housing benefits subsidy claim)	22,226	28,379	N/A	N/A
<b>TOTAL AUDIT FEE</b>	<b>165,042</b>	<b>223,597</b>		
Certification of other government grants:				
43 - Pooling of Housing Capital Receipts return	2,500	2,650	N/A	N/A
- Teachers' pensions return	6,950	7,900	N/A	N/A
<b>TOTAL ASSURANCE SERVICES</b>	<b>174,492</b>	<b>234,147</b>		
Non Assurance Services:				
- Review of internal audit provision	6,000	0	There is a self review threat as BDO place reliance on the work performed by internal audit	This review was undertaken by individuals not involved in the main audit process and led by an independent Engagement partner. The review incorporates options appraisal with a recommendation made but the review team was not involved in the decision making process.
<b>TOTAL NON ASSURANCE SERVICES</b>	<b>6,000</b>	<b>0</b>		

Note - Our work on the assurance reviews of the grant claims and other returns for 2015/16 is in progress and we will report the findings from this work and the final fees separately.

## APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
16 The Havens  
Ipswich  
IP3 9SJ

XX September 2016

Dear Sirs

**Financial statements of Southend-on-Sea Borough Council for the year ended 31 March 2016**

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2016 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 and Resources has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 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) and for making accurate representations to you.

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 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 all management and other meetings have been made available to you.

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.

There have been two events since the balance sheet date which require to be disclosed by way of a note. Should any other material events of this type occur, we will advise you accordingly.

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 international financial reporting standards and preventing and detecting fraud and error.

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

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, 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 councillors, employees, former employees, analysts, regulators or any other party.

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.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

## APPENDIX VII: DRAFT REPRESENTATION LETTER

### Continued

We confirm that the fair value measurements and significant assumptions in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

- fair value of property, plant and equipment using the following indexation percentages:

- -3.00% - Community Centres
- 2.00% - Leisure Centre (wet)
- 3.00% - Pavilions, Public Conveniences
- 4.00% - Religious Buildings
- 5.00% - Care Homes, Leisure Centres (dry), Libraries, Theatres
- 7.00% - Schools
- 8.00% - Council Dwellings

- assumptions underpinning the reported pension liability (details reported in note 41 to the main financial statements)

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

We confirm that the above representations are made on the basis of enquiries of councillors, 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 has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Joe Chesterton  
Head of Finance and Resources

XX September 2016

Councillor Meg Davidson  
Chairman of the Audit Committee  
Signed on behalf of the Audit Committee

XX September 2016

## APPENDIX VIII: AUDIT QUALITY

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

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to, one or more of the following:

- 37 The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
  - The development and delivery of firm-wide training;
  - Amendments and/or enhancements to stream policies and procedures.



FOR MORE INFORMATION:

**Lisa Clampin**

Engagement lead

T: 01473 320716

E: [lisa.clampin@bdo.co.uk](mailto:lisa.clampin@bdo.co.uk)

**Alison Langridge**

Engagement manager

T: 01473 320752

E: [alison.langridge@bdo.co.uk](mailto:alison.langridge@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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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

Copyright ©2016 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)