

Southend-on-Sea Borough Council

Department of the Chief Executive

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Dear Councillor,

AUDIT COMMITTEE - WEDNESDAY, 25TH JULY, 2018

Please find enclosed, for consideration at the next meeting of the Audit Committee taking place on Wednesday, 25th July, 2018, the following report that was unavailable when the agenda was printed.

Agenda No Item

- 7 **BDO: Audit Completion Report to the Audit Committee 2017/18 (Pages 1 - 44) – report attached**

Robert Harris
Principal Democratic Services Officer
Legal & Democratic Services

Report of the Chief Executive
to
Audit Committee
on
25th July 2018

Report prepared by: BDO External Auditor

BDO: Audit Completion Report to the Audit Committee 2017/18

Cabinet Member - Councillor John Lamb

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 2017/18 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 2017/18.**

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 Chief Executive and the Director 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 Audit Completion Report 2017/18



SOUTHEND-ON-SEA BOROUGH COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

19 July 2018

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WELCOME

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 2018, 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 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 on 25 July 2018, 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.

6 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.

In communicating with those charged with governance of the Council and the Group, we consider those charged with governance of subsidiary entities to be informed about matters relevant to their entity. Please let us know if this is not appropriate.

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

OVERVIEW

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 of the Council and consolidated entities (together the 'Group') and use of resources of the Council for the year ended 31 March 2018.

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.

AUDIT SCOPE AND OBJECTIVES

| | |
|---------------------------|--|
| Audit status | We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below. |
| Audit risks update | No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 9 April 2018. |
| Materiality | Our final materiality is £7.4 million for the Council and £7.6 million for the Group. Our materiality levels have not required reassessment since our audit planning referred to above, but have been updated to reflect the gross expenditure reported in the draft financial statements presented for audit. We set the clearly trivial threshold at £185,000 for the Council and £190,000 for the Group. |
| Changes to audit approach | There were no significant changes to our planned audit approach nor were any restrictions placed on our audit. |
| Group audit | Our approach is designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved. To summarise our audit coverage: <ul style="list-style-type: none"> Total group expenditure: 97% full audit and 3% Group level procedures Total group assets: 98% full audit and 2% Group level procedures. |

OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS

| | |
|------------------------------|---|
| Material misstatements | <p>Our audit procedures to date have not identified any material misstatements. A verbal update will be given at the Audit Committee, should any material issues arise between the issue of this report and the Audit Committee meeting.</p> <p>However, since approval of the draft financial statements, the Council was notified by Essex County Council that the actuary statement provided for the Essex Pension Fund for preparation of those financial statements required amendment. The updated actuary statement subsequently provided resulted in a material amendment being required in respect of the pension fund liability. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million.</p> <p>The Council have also adjusted for non-material differences totalling £0.254 million identified by the auditors of South Essex Homes Limited.</p> |
| Unadjusted audit differences | Our audit to date has not identified any unadjusted audit differences. A verbal update will be given at the Audit Committee, should any reportable matters arise between the issue of this report and the Audit Committee meeting. |
| Control environment | Our audit has not identified any significant deficiencies in internal controls. |

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

| | |
|----------------------|--|
| Sustainable finances | 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. |
|----------------------|--|

OVERVIEW

| AUDIT OPINION | |
|--|---|
| Financial statements | Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements for the year ended 31 March 2018. |
| Other information | Subject to the successful resolution of outstanding matters set out on page 6, we propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge. |
| Annual Governance Statement | Subject to the successful resolution of outstanding matters set out on page 6, we have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge. |
| Use of resources | Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018. |
| OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE | |
| Whole of Government Accounts (WGA) | The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool. We anticipate issuing the relevant part of the assurance statement to the National Audit Office by the 31 August deadline. |
| Audit independence | Our observations on our audit independence and objectivity and related matters are set out in Appendix V. |
| Management letter of representation | The draft management letter of representation, to be approved and signed, is set out in Appendix VII. |

OUTSTANDING MATTERS

We have largely completed our audit work for the year ended 31 March 2018, and anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements.

The following matters are outstanding at the date of this report. We anticipate that the majority of these matters will have been completed by the time of the Audit Committee at which this report is considered and we will update you on their current status at that meeting:

1 Clearance of the small number of outstanding issues on the audit queries tracker currently with management

Completion of a small amount of residual testing in the following areas:

- Property, Plant and Equipment
- Debtors
- Creditors
- Pension Scheme
- CIES NCOS Income
- Housing Benefit Expenditure
- Council Tax Benefit Expenditure
- Other Disclosures

2

3 Final review by the project manager and RI and clearance of review points

4 Audit completion tasks, including subsequent events review, and testing of going concern, contingencies and commitments, trust funds, consolidation (including receipt of final audited accounts and ISA 260 report from the component auditors of South Essex Homes Limited), the narrative report and laws and regulations

5 Final review and approval by you of the Statement of Accounts

6 Management letter of representation, as attached in Appendix VII to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS OVERVIEW

We assessed the following matters as audit risks, as reported in our Audit Plan dated 9 April 2018. Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

| AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|--|--|---|---|
| 1 ■ Management override of controls | <p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p> | <p>We have:</p> <ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. | <p>Our audit work in relation to journals has not identified any significant issues.</p> <p>We have not found any indication of management bias in accounting estimates.</p> <p>Our views on significant management estimates in respect of property revaluations, the valuation of the pension scheme and the bad debt provision are included below.</p> |


KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|---|---|---|
| 2 | Property, plant and equipment valuations | <p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date.</p> <p>The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.</p> <p>As part of the 5 year rolling re-valuation programme, all schools have been re-valued in 2017/18. Upon review of the revaluation schedules for these assets, the upwards revaluations were seen to total £32m and downwards revaluations totalled £0.6m. We concluded that there is a significant risk of material misstatement of asset values.</p> <p>2017/18 is the second year that the Council has used the current external valuers and we identified a material error in the valuations they provided in the first year, which increases our view of the associated audit risk.</p> | <p>We have:</p> <ul style="list-style-type: none"> Reviewed the instructions provided to the valuer as well as the valuer’s skills and expertise in order to determine if we can rely on them as a management expert Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage Confirmed that the valuation movements are consistent with the expectations provided by independent data about the property market Confirmed that the assets not specifically valued in the year have been properly assessed to confirm that their reported values remain materially correct Confirmed that an instant build modern equivalent asset basis has been used for assets valued at Depreciated Replacement Cost. | <p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we are satisfied that we can rely on the majority of their work. We are not satisfied that we can place reliance on all of the school floor areas used in the valuation calculations prepared by the valuer, as detailed on the following page.</p> <p>For the sample of PPE assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for. Our review of the reasonableness of valuation assumptions applied is noted overleaf.</p> |

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Property, plant and equipment valuations

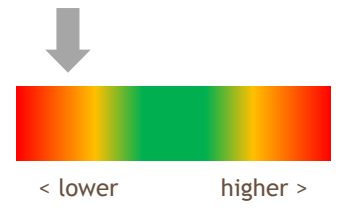
| ESTIMATE | HOW RISK WAS ADDRESSED BY OUR AUDIT | IMPACT |
|---|--|---|
| <p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Investment properties are valued by reference to highest and best use market value</p> <p>Some specialist buildings are valued at depreciated replacement cost by reference to building indices</p> | <p>The Council engaged an external valuer to value the asset categories detailed on the previous page as at 1 April 2017 in line with the rolling revaluation policy. This resulted in a net upward revaluation movement of £31.224 million in the year for PPE and a gain of £3.212 million for investment properties.</p> <p>We assessed the valuer's competence, independence and objectivity and determined we could largely rely on the management expert. We are not, however, satisfied that we can place reliance on the floor areas used for 5 of the schools revalued. For these 5 assets, the floor areas applied were found to be misstated when comparing to source documentation. The movement in the valuations arising from correcting these floor areas was concluded to be trivial.</p> <p>We reviewed the valuations provided and the valuation methodology applied and, in all cases, confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements for all assets.</p> <p>The valuer also confirmed that there was a material movement in valuation between valuation date and year end. A net re-valuation gain of £35.907 million has been recognised in respect of this. This movement has been calculated by applying a percentage increase to each of the categories of assets where an increase in value was assessed to have occurred, using sector relevant indices adjusted for local factors where considered appropriate by the valuer. We have reviewed these percentage increases and concluded them to be reasonable.</p> | <p style="text-align: center;">↓</p>  <p style="text-align: center;">< lower higher ></p> |

KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|---|--|---|---|
| 3 | <p>Pension liability assumptions</p> | <p>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.</p> <p>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.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p> | <p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We checked whether any significant changes in membership data were communicated to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> | <p>We did not identify any issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page.</p> <p>During the course of the audit, Essex County Council notified the Council of a material misstatement in respect of the pension fund liability data provided by the Essex pension fund actuary. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million. The Council have amended for this in the final financial statements.</p> |

KEY AUDIT AND ACCOUNTING MATTERS

| SIGNIFICANT ACCOUNTING ESTIMATES | | | | |
|---|---|--------------------|----------------------|---|
| Pension liability assumptions | | | | |
| ESTIMATE | HOW RISK WAS ADDRESSED BY OUR AUDIT | | IMPACT | |
| The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows | The actuary has used the following assumptions to value the future pension liability: | | | |
| | | Actual used | Actuary range | PwC assessment of actuary range to market expectations |
| | RPI increase | 3.3% | 3.3-3.35% | Bottom of expected range |
| | CPI increase | 2.3% | 2.3-2.35% | Bottom of expected range (derived from RPI above) |
| | Salary increase | 3.8% | -- | Bottom of expected range (derived from RPI above) |
| | Pension increase | 2.3% | 2.3-2.35% | Bottom of expected range (derived from RPI above) |
| | Discount rate curve | 2.55% | 2.5-2.6% | Middle of expected range |
| | Mortality - LGPS: | | | |
| | - Male current | 24.4 years | 23.5-26.6 | Reasonable |
| | - Female current | 27.0 years | 26.5-28.3 | Reasonable |
| - Male retired | 22.2 years | 21.4-24.4 | Reasonable | |
| - Female retired | 24.7 years | 24.2-26.0 | Reasonable | |




KEY AUDIT AND ACCOUNTING MATTERS

| | AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|---|--|---|--|---|
| 4 | Revenue and expenditure recognition | <p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risk can be identified as affecting the accuracy and existence of income and expenditure.</p> <p>We do not consider there to be a specific significant risk over any one income stream recorded in the Comprehensive Income & Expenditure Statement.</p> <p>Errors regarding the year-end income were identified in each of the previous two years. The net impact on the 2016/17 accounts of these errors was an estimated overstatement of income of £217k. As this is a recurring issue, and the procedures in respect of the year-end cut off have not changed, we consider this to be a risk of non-trivial misstatement, specifically over the cut-off of fees and charges and therefore completeness of income at year-end.</p> | <p>We tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p> <p>We traced an increased sample of items picked from the pre and post year-end bank statements to supporting documentation to confirm the completeness of the amounts recorded.</p> <p>We reviewed the Council's policy to only accrue for items with a value of greater than £5,000 and made an assessment of whether this could lead to a material misstatement.</p> | <p>Our testing in this area is ongoing. We will provide a verbal update to the Audit Committee.</p> <p>We conclude that the likelihood of the policy to only accrue for items with a value of greater than £5,000 resulting in a material misstatement is remote.</p> |
| 5 | Expenditure and Funding Analysis (EFA) | <p>During the prior year audit, we identified inconsistencies in the methodology for preparing the expenditure and funding analysis note between the disclosures made in the financial statements in respect of 2016/17 and those made in respect of 2015/16.</p> | <p>We have reviewed the methodology for preparing this note and ensured it is consistent with the final agreed methodology from 2016/17.</p> | <p>Our testing in this area is ongoing. We will provide a verbal update to the Audit Committee.</p> |

KEY AUDIT AND ACCOUNTING MATTERS

| AUDIT AREA | RISK DESCRIPTION | HOW RISK WAS ADDRESSED BY OUR AUDIT | AUDIT FINDINGS AND CONCLUSION |
|------------|---|--|--|
| 6 | Southend Care Ltd | <p>The Council has a new subsidiary company in 2017/18 (Southend Care Ltd). As the transactions for this are material and have not historically been accounted for this presents a risk of material misstatement.</p> | <p>Our testing in this area is ongoing. We will provide a verbal update to the Audit Committee.</p> |
| 7 | Property, plant and equipment (PPE) existence | <p>Our initial review of the fixed asset register identified a small number of assets that the Council no longer holds. This was one transit van with a net book value of nil, a number of rooms removed as part of the past remodelling of two HRA sheltered accommodation schemes with a net book value of £1.1m and three garages with a net book value of £8,049.</p> <p>We have identified similar issues in previous years and the identification of these further assets indicates that a risk of material misstatement still exists.</p> | <p>We have:</p> <ul style="list-style-type: none"> Agreed the numbers consolidated into the financial statements to the draft financial statements for Southend Care Ltd Confirmed that the processes and procedures for consolidation are in line with our expectations and those applied for South Essex Homes Limited. Performed a high level analytical review of the numbers included in the Southend Care Ltd accounts against our expectations |
| | | <p>We have:</p> <ul style="list-style-type: none"> Reviewed the work that the Council has undertaken to identify further assets on the fixed asset register that the Council no longer holds Traced a sample of general fund, investment property and heritage assets to title deeds confirming the Council's ownership of the assets Traced a sample of Housing Revenue Account assets to the housing rent system, confirming that rental income is being received on the assets and thus that they exist Agreed a sample of investment property assets to the lease document held for these assets Physically verified a sample of general fund, heritage asset and investment property assets. | <p>During our interim audit, of the total population of PPE assets (£778.536 million net book value), we identified the following issues:</p> <ul style="list-style-type: none"> One generically named asset with a net book value of £100,282 could not be identified. Further procedures to establish whether this is an isolated example are in progress. An update will be provided to the Audit Committee. A number of rooms removed as part of the remodelling of two HRA sheltered accommodation schemes with a net book value of £1.1m were still held on the fixed asset register 307 garages with a total net book value of £635k, which have been either demolished or sold were still held on the fixed asset register. <p>All of the above assets were removed from the fixed asset register included within the financial statements prior to the submission of the financial statements for the final audit. All errors identified have been isolated to the specific issues listed above.</p> |

KEY AUDIT AND ACCOUNTING MATTERS

| SIGNIFICANT ACCOUNTING ESTIMATES | | |
|---|--|---|
| SIGNIFICANT ESTIMATE | HOW RISK WAS ADDRESSED BY OUR AUDIT | IMPACT |
| Estimate of future write-off for uncollectable debt | <p>Overall, we concluded that the impairment allowances for receivables are materially accurate, and have mostly been based on historical write off rates. Based on a review of historical write off rates we concluded that the overall difference between the provision value and the value if all elements of the provision were calculated using historical recovery rates was trivial.</p> <p>Housing benefit overpayments</p> <p>The impairment allowance at 31 March 2018 is £3.425m, an increase of £0.181m from the prior year, against an overpayments balance of £6.585m. We compared this to the historical collection rates and estimate that this provision should be in the region of £3.360m.</p> <p>Council tax arrears</p> <p>The total impairment allowance for the Collection Fund at 31 March 2018 is £2.468m, an increase of £0.073m from the prior year, against total arrears of £4.975m. We compared this to the historical collection rates and estimate that this provision should be in the region of £2.462m.</p> <p>Business rates arrears</p> <p>The total impairment allowance for the Collection Fund at 31 March 2017 is £0.389m, an increase of £0.036m from the prior year, against total arrears of £1.806m. We compared this to the historical collection rates and estimate that this provision should be in the region of £0.390m.</p> <p>The total impairment allowance for other receivables where it was felt appropriate to make a provision at 31 March 2018 is £5.566m, a decrease of £0.157m from the prior year, against an outstanding balance of £12.144m. We compared this to the historical collection rates and estimate that this provision should be in the region of £5.598m.</p> | <p style="text-align: center;">↓</p>  <p style="text-align: center;">< lower higher ></p> |

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration.

| AUDIT AREA | AUDIT FINDINGS |
|------------|--|
| 1 | <p>Fraud</p> <p>Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 9 April 2018.</p> |
| 2 | <p>Internal audit</p> <p>We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage. This review did not identify any additional audit risks.</p> |
| 3 | <p>Related parties</p> <p>Whilst the Council is 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.</p> <p>We did not identify any significant matters in connection with related parties.</p> |
| 4 | <p>Group matters</p> <p>We are awaiting the results of the component auditors' reporting in order to confirm we are satisfied with the quality of their work. We will then confirm that:</p> <ul style="list-style-type: none"> • There were no limitations on the audit where information was restricted • We did not identify any fraud at a component level. <p>We will provide a verbal update to the Audit Committee.</p> |

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 | 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. |
| | Our testing in this area is ongoing. We will provide a verbal update to the Audit Committee. |
| 2 | We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit. |
| | We have no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance. |

CONTROL ENVIRONMENT

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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2017/18.

We have identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix III.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

| | MATTER | COMMENT |
|---|--|--|
| 1 | 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 14 June 2018. The Council met this deadline.</p> <p>We will submit the relevant section of the assurance statement to the National Audit Office (NAO) by 31 August 2018.</p> |

USE OF RESOURCES

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

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

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

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

We reported our risk assessment, which included use of resources significant risks, in the 2017/18 Audit Plan issued on 9 April 2018. 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. We have not therefore identified any risks in respect of informed decision making or working with partners and other third parties, and no detailed work has been performed in these areas.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk ■ Normal risk ■ Other issue

USE OF RESOURCES

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| RISK AREA | RISK DESCRIPTION AND WORK PERFORMED | AUDIT FINDINGS AND CONCLUSION |
|--|---|---|
| <p>1 Sustainable resource deployment</p> | <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 2021/22. The Council set a balanced budget for 2018/19 but this requires planned savings of £7.9m to be achieved. The MTFS forecasts a budget gap totalling £16.9m 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 2016/17 year which showed a budget gap of £22.9m. The two MTFS' cover different years and the reduction is due to the gap for 2021/22 in the current MTFS being lower than the budget gap for 2018/19 in the prior year MTFS. The budget gap is forecast to arise as follows:</p> <ul style="list-style-type: none"> • 2019/20: £7.5m (increased from £5.1m in the previous MTFS) • 2020/21: £4.9m (decreased from £7.5m in the previous MTFS) • 2021/22: £4.5m <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>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>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 has sufficient reserves available and is undertaking appropriate arrangements to manage the budget gap in a way that will ensure it remains financially sustainable over the period of the MTFS.</p> |

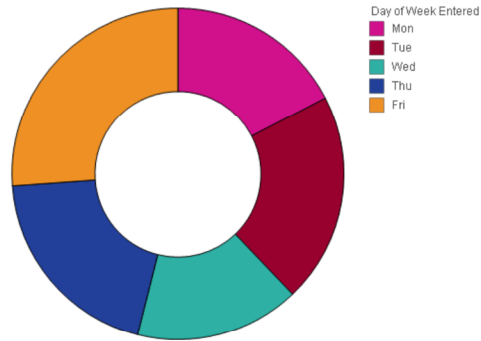
| RISK AREA | RISK DESCRIPTION AND WORK PERFORMED | AUDIT FINDINGS AND CONCLUSION |
|-----------|--|-------------------------------|
| | <p>Our review of the latest forecast position and assessment of whether the Council is achieving the budget is ongoing, as is our review of the plans in place for the future utilisation of reserves. We will provide a verbal update to the Audit Committee.</p> <p>The Council continues to maintain a level of balances and earmarked reserves in accordance with the plans set out in the MTF5. As at 31 March 2018, the General Fund balance was £11m which is within the Director of Finance and Resources recommended range of £10m to £12m. General Fund earmarked reserves were £61.6m compared to £64.0m at 31 March 2017 and £58.5m at 31 March 2016. The Council's overall useable reserves, which include the General Fund, HRA, Earmarked Reserves (including schools) and capital resources, have increased by £4.9m in 2017/18.</p> | |

APPENDICES

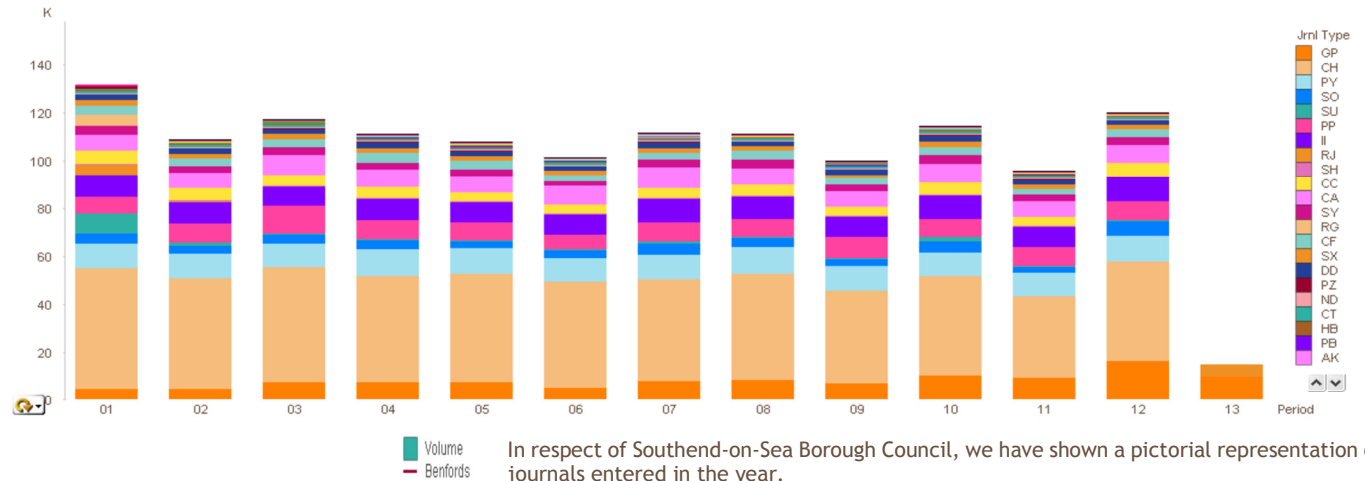
APPENDIX I: REVIEW OF JOURNALS

Southend-on-Sea Borough Council
1,339,296 journal lines entered

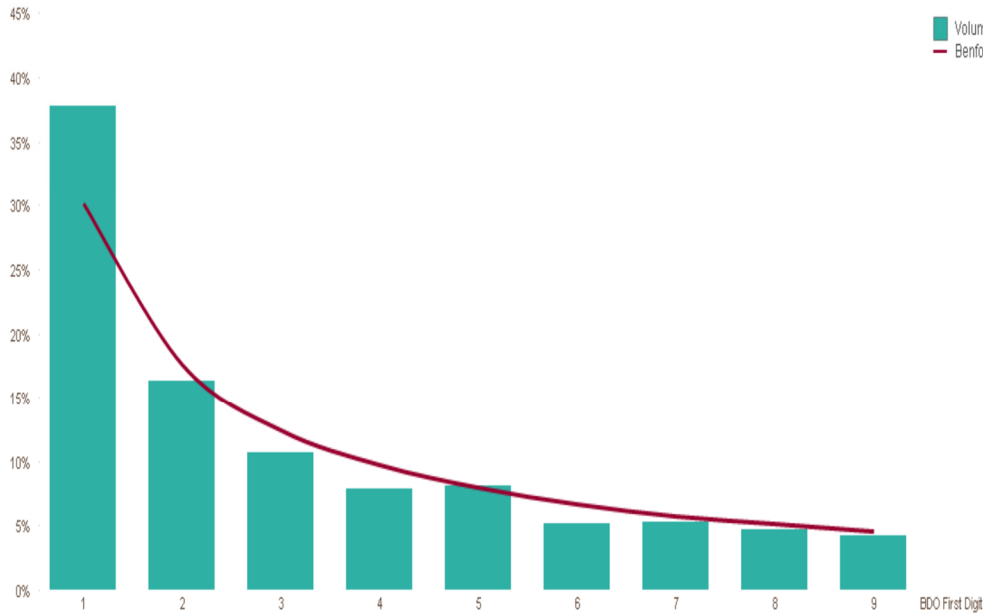
Journal Abs Value by Day of Week Entered



Journal Line Volume by Type



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In respect of Southend-on-Sea Borough Council, we have shown a pictorial representation of the journals entered in the year.

The “journal value by day of the week entered” demonstrates that no journals have been posted at the weekend, which is line with our expectations.

The “Journal line volume by type” graphic shows the volume of each type of journal entered in the year. As expected, we can see that the highest volume of journals entered are type CH (Academy cash receipts), with 519,838 entries posted. The volume of different types of journals has been assessed with our knowledge of the entity and no unexplained anomalies have been found.

Lastly, the final graph shows Benford’s Law analysis. This is an observation of the frequency distribution of leading digits in sets of numerical data. Essentially the law states that in a set of numerical data the leading significant digit should be low i.e. you would expect most numbers in the population to begin with a 1 and the least to begin with a 9. The graph looks at whether the population of journals follows this expected pattern.

For Southend-on-Sea Borough Council, the numbers in the population were found to follow the expected trend.

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, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

One material misstatement in respect of the pension fund liability was notified by Essex County Council during the course of the audit. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million.

Management have also adjusted for non-material differences totalling £0.254 million identified by the auditors of South Essex Homes Limited.

There were no further audit differences identified by our audit work to date that were adjusted by management.

UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference, brought forward from the 2016/17 audit which impacts on the current year, which would increase the deficit on provision of services by £0.290 million if corrected. You consider this identified misstatement to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct it even though not material.

APPENDIX II: AUDIT DIFFERENCES

CURRENT YEAR IMPACT OF PRIOR PERIOD UNADJUSTED DIFFERENCES

| | £'000 | INCOME AND EXPENDITURE / FUND ACCOUNT | | STATEMENT OF FINANCIAL POSITION / NET ASSETS | |
|---|-------|---------------------------------------|-------------|--|-------------|
| | | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| Net operating expenditure for the year before adjustments | 9,441 | | | | |
| DR Cost of Services Income | 290 | 290 | | | |
| CR Reserves | | | | | 290 |
| (1) Impact of brought forward unadjusted misstatements - extrapolated element of understatement of adult social care income due to income from client contributions relating to prior period being recognised in 2017/18, as they were not accrued for in the prior year (projected). | | | | | |
| TOTAL UNADJUSTED AUDIT DIFFERENCES | | | | | |
| Surplus / deficit on provision of services if adjustments accounted for | 9,731 | | | | |

APPENDIX II: AUDIT DIFFERENCES

UNADJUSTED DISCLOSURE MATTERS

Our testing identified a number of individually immaterial disclosure notes which were included in the financial statements.

These notes have been left in the financial statements as management believe the disclosure provides context for the reader of the accounts. These are:

- Accounting policies for provisions, finance lease and operating leases where the Council is the lessee
- Provisions
- The Council as Lessee: Finance Leases
- The Council as Lessee: Operating Leases
- The Council as Lessor: Finance Leases
- Heritage Assets Group Disclosure Note

Our testing also identified one immaterial prior period adjustment which was included in the financial statements.

This adjustment has been left in the financial statements as management believe the disclosure provides context for the reader of the accounts. This is in relation to an adjustment within the group accounts for various prior period misstatements identified within the Trust fund accounts

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|--|--|---|--|---------------------|------------|
| STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS | | | | | |
| Floor Areas of Revalued Assets | <p>It was noted that for 5 assets the floor areas applied by the valuer in their valuation calculations were either misstated or the exact figure they had used could not be evidenced. The movement in the valuations arising from correcting these floor areas was concluded to be trivial. The cause of the error was believed to be because the valuer placed reliance on the data used in the last valuation in 2012, and did not reassess the accuracy of this data.</p> <p>Although the errors identified are trivial, if similar errors are made in future years when larger populations of assets are revalued, this could lead to a material misstatement.</p> | It is recommended that all floor areas are verified to source document for every asset where a floor area is used in the valuation. | Agreed | Caroline Fozzard | March 2019 |
| Property, Plant and Equipment (PPE) Existence | <p>Our testing over the existence of property, plant and equipment identified a small number of assets which had been demolished, disposed of or could not be identified.</p> <p>There is a risk that there is a cumulative material balance of assets on the fixed asset register which do not exist.</p> | It is recommended that the Council obtain positive confirmation regarding the existence of all assets on the fixed asset register on an annual basis. | The asset register will be reviewed and a method of testing the existence of each asset type will be ascertained. For the higher value assets, existence will be determined using that method on a sample basis. This should give assurance that there is not a material balance of assets which do not exist. | Caroline Fozzard | March 2019 |

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|--|--|---|---------------------|---------------------|----------|
| STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS | | | | | |
| Pension Fund Disclosures | <p>A material adjustment was made to the pension fund as a result of a movement in the value of the fund from the estimate which was initially supplied. The Council has limited controls in place to identify potential differences in the value of the pension fund.</p> <p>The adjustment was notified to the Council by Essex County Council (ECC). If ECC had not notified the Council of this adjustment, the Council would not be aware of it, and there could potentially be a material error in the accounts.</p> | <p>It is recommended that the Council review the numbers provided in respect of the pension fund and make enquiries of ECC regarding any amounts which have moved significantly year-on-year, in order to satisfy themselves that the movements are not indicative of errors.</p> | Agreed | Ian Ambrose | May 2019 |

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR

| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|-----------------------------------|---|--|---|---------------------|---------|
| ANNUAL REPORT AND ACCOUNTS | | | | | |
| Consolidation of Schools Income | <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.</p> <p>We identified 3 schools/colleges for which the income had been consolidated incorrectly. The amounts involved were individually immaterial with the only non-trivial amount being in relation to Seabrook College. The Council has amended for all errors identified. 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. This was the same recommendation raised in 2015/16.</p> | <p>Guidance was provided as agreed.</p> | Ian Ambrose | Cleared |

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR

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| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|-----------------------------------|---|---|--|---------------------|---------|
| ANNUAL REPORT AND ACCOUNTS | | | | | |
| Rolling Revaluation Policy | <p>It was identified that there were 18 assets which have not been revalued since 2011/12 and 12 assets which have never been revalued. As per the code, all assets should be revalued at least every 5 years, and therefore the failure to revalue these assets is out of line with code guidance.</p> <p>There is a risk that the value of these assets has changed significantly and is therefore materially misstated. The total net book value of the assets we are aware of is £1,657k. It is therefore considered unlikely that the revaluation of these assets would lead to a material adjustment.</p> | It is recommended that all assets where no revaluation has been performed in the last 5 years are revalued during 2017/18. | These assets were revalued during 2017/18 | Caroline Fozzard | Cleared |
| Useful Economic Lives | <p>The UELs are set by the valuers for each individual asset when the assets are revalued. We are aware of at least 3 assets where the UEL recorded on the fixed asset register does not match the UEL set by the valuers.</p> <p>There is a risk that depreciation is materially misstated as a result of the incorrect UELs being applied. Our initial assessment however suggests that the impact of these errors is trivial.</p> | A review of all the UELs applied on the fixed asset register should be undertaken and it should be confirmed that all are consistent with the values provided by the valuers. | This review was undertaken as part of the 2017/18 Fixed Asset Register review. | Caroline Fozzard | Cleared |

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR

| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|----------------------------|--|---|--|--|--------------|
| ANNUAL REPORT AND ACCOUNTS | | | | | |
| Journal Authorisation | A weakness in access controls over journals means that journals can be raised and authorised by the same person with no checks in place to prevent this. In addition, 3 users were identified who had access to post journals that should not have this access. It was noted that no journals had been posted by any of these 3 individuals. | The Finance Service should carry out a review of access rights to ensure that only appropriate individuals are able to post and approve journals. | A review of access rights to raise and approve manual journals was undertaken. An ICT helpdesk call was raised and actioned for any required changes. | Ian Ambrose, Caroline Fozzard | March 2018 |
| | The Council's policy is that no journals are raised and authorised by the same person but there are no checks in place to ensure that this is followed. This deficiency means that it is possible for the accounts to be manipulated by raising fraudulent journals. | The IT department should be tasked with a review of the journal authorisation process. | The journal authorisation process has been reviewed. Work is on-going regarding access to the Excel tools for Agresso batch inputting and also the Agresso 'Data Import' folder. | Ian Ambrose, Caroline Fozzard, Mike Miller | October 2018 |
| | This point was previously reported by internal audit. | Additionally, a periodic review of journals should be carried out to ensure that there are no journals that have been raised and authorised by the same person. | It is not possible to develop a report with this information as the workflow/ authorisation process sits outside of the main Agresso application. | Mike Miller | March 2018 |

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR

| AREA | OBSERVATION AND IMPLICATION | RECOMMENDATION | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING |
|----------------------------|--|--|--|----------------------------------|----------|
| ANNUAL REPORT AND ACCOUNTS | | | | | |
| Disclosure Notes | <p>There were a small number of notes included in the financial statements which were immaterial and did not need to be included.</p> <p>There is a risk that time will be inefficiently spent preparing notes which the Council is not required to prepare.</p> | The Council performs a critical review of the financial statements next year and does not prepare any notes which are considered immaterial. | A review was undertaken of the notes which BDO asked to be removed in 2016/17. The review looked at both materiality and contextual value to the user of the accounts in forming a judgement about continued inclusion in the Council's Statement of Accounts. Management's judgement was to continue to include these notes in 2017/18. | Ian Ambrose, Caroline Fozzard | May 2018 |

APPENDIX IV: MATERIALITY

MATERIALITY - COUNCIL

| | FINAL | PLANNING |
|---------------------------|-----------|-----------|
| Materiality | 7,400,000 | 7,700,000 |
| Clearly trivial threshold | 185,000 | 192,500 |

Planning materiality of £7,700,000 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.

MATERIALITY - GROUP

| | FINAL | PLANNING |
|---------------------------|-----------|-----------|
| Materiality | 7,600,000 | 7,700,000 |
| Clearly trivial threshold | 190,000 | 192,500 |

Planning materiality of £7,700,000 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

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 leads 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 2018.

Details of services, other than audit, provided by us to the Council and the Group during the period and up to the date of this report 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. Project manager Andrew Barnes will be joining the Council with effect from 24 July 2018. In order to safeguard our independence, Andrew has had no involvement in the audit from the point this became known to us in April 2018. Work completed prior to this, where Andrew was part of the review process, has also been subject to review by the Engagement Lead, Lisa Clampin.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

37 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 and are independent of the Council and the Group.

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

APPENDIX VI: FEES SCHEDULE

| | 2017/18 FINAL PROPOSED £ | 2017/18 PLANNED £ | 2016/17 FINAL £ | EXPLANATION FOR VARIANCES |
|---|-----------------------------------|-------------------------|-----------------------|--|
| Code audit fee | 142,816 | 142,816 | 142,816 | N/A |
| Fee for reporting on the housing benefits subsidy claim | 21,284 | 21,284 | 21,284 | N/A |
| TOTAL AUDIT AND CERTIFICATION FEES | 164,100 | 164,100 | 164,100 | |
| Fees for reporting on other government grants: | 14,000 | 14,000 | 10,500 | N/A |
| - Pooling of housing capital receipts return | 3,500 | 3,500 | 2,500 | N/A |
| - Teachers' pension return | 7,000 | 7,000 | 8,000 | N/A |
| - Other | 3,500 | 3,500 | - | 2017/18 fee relates to Homes and Communities Agency Information Management System compliance assurance fee |
| Fees for other non-audit services | - | - | 1,200 | 2016/17 fee relates to Audit Committee knowledge sharing session |
| NON-AUDIT ASSURANCE SERVICES | 14,000 | 14,000 | 11,700 | |
| TOTAL ASSURANCE SERVICES | 178,100 | 178,100 | 175,800 | |

APPENDIX VII: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

[XX] July 2018

Dear Sirs

39

Financial statements of Southend-on-Sea Borough Council and the Group for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements and the Group financial statements for the year ended 31 March 2018 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 director 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 Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 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 2018 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 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 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.

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.

APPENDIX VII: DRAFT LETTER OF REPRESENTATION

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.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. 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.

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.

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.

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

- 5.19% - Council dwellings
- 7.64% - Function rooms, banqueting rooms, meeting rooms etc.
- 8.27% - Clubs, youth clubs, student unions etc.
- 8.30% - Leisure centres - wet
- 8.45% - Museums
- 8.50% - Crematoria
- 9.06% - Libraries
- 9.11% - Leisure centres - dry
- 9.16% - Care homes
- 9.35% - Purpose built factories / offices - mixed facilities
- 9.77% - Theatres
- 9.87% - Covered swimming pools
- 10.14% - Gymnasia / sports halls

APPENDIX VII: DRAFT LETTER OF REPRESENTATION

- 10.21% - Public conveniences
 - 10.84% - Schools
- assumptions underpinning the reported pension liability (details reported in note 36 to the main financial statements)

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.

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 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 to make themselves aware of any relevant audit information and to establish that you are aware of that information.

41 Yours faithfully

Joe Chesterton

Director of Finance & Resources

Section 151 Officer

[Date]

Cllr Meg Davidson

Chair of the Audit Committee

Signed on behalf of the Audit Committee

[Date]

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 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 a 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

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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