Report to the Governance and Audit Committee

COLCHESTER BOROUGH COUNCIL

Draft Audit Completion Report: Year ended 31 March 2019

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WELCOME
Introduction

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We have pleasure in presenting our Audit Completion Report to the Governance and Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Governance and Audit Committee. At the completion stage of the audit it is essential that we engage with the Governance and Audit Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Governance and Audit Committee meeting and to receiving your input.

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

This report contains matters which should properly be considered by the Council as a whole. We expect that the Governance and Audit Committee will refer such matters to the Council, together with any recommendations, as it considers 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.

Lisa Clampin

19 July 2019

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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 Governance and 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.

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

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

Overview

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

Outstanding matters are listed on page 35 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Note, this report is currently in draft while we conclude our audit work, a final version will be issued. An oral update will be provided to the Committee at the meeting on the 30 July 2019.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements and an unmodified use of resources conclusion, subject to the completion of the outstanding work.

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THE NUMBERS

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Final materiality

Final materiality was determined based on gross expenditure.

Changes were made to planning materiality as a result of net operating expenditure being higher than the average gross expenditure for the last two years (on which our planning materiality was based).

Material misstatements

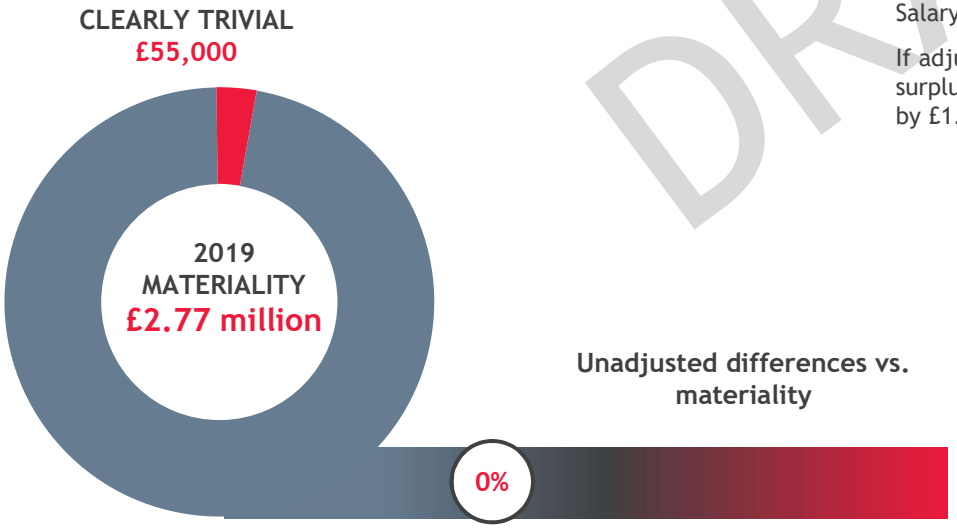
Our audit did not identify any material misstatements.

Unadjusted audit differences

We have identified one unadjusted audit difference.

As a result of the Government not being given leave to appeal in relation to the "McCloud" Age discrimination case after the Council had authorised the accounts for issue on 30 May 2019, an adjustment is required to the accounts. It has been determined that the Council should account for the additional expected pension liabilities in 2018/19 as a result of the principals of this case being expected to also apply to the LGPS move from Final Salary to career average benefits.

If adjusted this would decrease the surplus on the provision of services by £1.9 million.



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Financial reporting

- Based on work to date we have not identified any non-compliance with accounting policies or the applicable accounting framework.
- IFRS 9 *Financial Instruments* is a significant accounting policy change that has impacted the current year. We are satisfied with this accounting treatment.
- Going concern disclosures are deemed sufficient.
- The Narrative Report and other information included in the Statement of Accounts within the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- The Council is below the audit threshold of £500 million for a full assurance review of the Whole of Government Accounts Data Collection Tool.

Other matters that require discussion or confirmation

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

Independence

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

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AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 14 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	Work still on going	No	Work still on going
Revenue recognition	Significant	No	No	Work still ongoing	No	Work still on going
Property Plant & Equipment and Investment Property Valuation	Significant	Yes	Yes	No	No	No
Pension Liability Valuation	Significant	Yes	Yes	Yes [1] Work still ongoing	No	Work still ongoing

Areas requiring your attention

[1]Amendment arises as a result of the Government being refused leave to appeal the age discrimination case brought in relation to the New Judicial Pension scheme (known as the McCloud Judgement) and therefore this issue needs to be considered by an Employment Tribunal. This confirms the constructive obligation arising from the decision of the High Court in January 2019.

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MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

- Significant risk
- Normal risk
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant Control Findings
- Letter of Representation point

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of a sample 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, represented a risk of material misstatement due to fraud.
- Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our audit work on journals has not identified any issues.

Our work to date on estimates has not identified any bias indicating a risk of material misstatement.

We did not identify any transactions outside the normal course of business for the Council.

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REVENUE AND EXPENDITURE RECOGNITION

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.

In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of revenue and capital of grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

Following our interim work, we have concluded that we can rebut the risk relating to fees and charges being materially misstated.

As most public bodies are net spending bodies due to being partly grant funded, the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. Therefore we also consider there to be a significant risk around the completeness of expenditure.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of grants subject to performance conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.

Results and Conclusion

Our testing to date has not identified any issues, however we are working through a small number of samples. We expect to complete this work prior to the Governance and Audit Committee meeting.

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NON-CURRENT ASSET VALUATIONS

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date. PPE values are subject to valuation changes and material judgemental inputs and estimation techniques.

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.

As part of the 5 year rolling re-valuation programme, approximately 20% of the land and buildings assets have been re-valued in 2018/19.

The Authority uses an external valuer to perform the valuation assessment.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert.
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their use.
- Reviewed the reasonableness of assumptions used in the valuation of non-current assets, the accuracy and completeness of the source data used by the valuer and the Council's critical assessment of the external valuer's conclusions.
- Confirm that the assets not specifically valued in the year have been assessed to ensure that their reported values remain materially correct.

Results and Conclusion

Our audit work in relation to the accuracy and completeness of the data provided to the valuer and the assumptions used by the valuer is still ongoing.

We have reviewed the instructions to the valuer and the valuers skills and expertise and have determined that we are able to rely on them.

We have reviewed the assets not specifically valued in the year and are content that the values remain materially correct.

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Significant accounting estimates

Overview

Land and buildings used by the council for operational purposes are valued by reference to existing use market values Investment properties are valued by reference to highest and best use market value.

We have benchmarked the valuation movements to land and building price indices for the year produced by Gerald Eve LLP and reviewed the information and assumptions used by the valuers.

Discussion

Land and Buildings have increased in 2018/19.

Land and buildings have been valued using an appropriate basis of valuation (such as existing use, depreciated replacement cost or market value) depending on the use of the asset.

We have reviewed the assumptions used by the valuer and are content that these are reasonable.

Our benchmark report for rebuild costs from the national BCIS Tender Price Index suggests an increase in value for depreciated replacement cost (DRC) valuations of +2.8%, although this is subject to a higher degree of volatility and estimation from regional costs and other factors.

Investment properties have decreased in 2018/9.

Our benchmark report for the eastern region suggests an increase of 3.1% for office space. The report is done on a regional basis and may not be granular enough for local circumstances.

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PENSION LIABILITY ASSUMPTIONS

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data, where there are significant changes, or uses inappropriate assumptions to value the liability.

Work performed

- Reviewed the consulting actuary report over the competency and experience of the actuary and reasonableness of assumptions used.
- Reviewed the competence of the management expert (actuary).
- Agreed the disclosures to the information provided by the pension fund actuary.
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.
- Obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- Checked whether any significant changes in membership data have been communicated to the actuary.

Results

No issues have been noted from our work to date, however we are still awaiting the assurance letter from the auditors of the Pension Fund.

The Government have been refused leave to appeal the age discrimination case brought in relation to the New Judicial Pension scheme (known as the McCloud Judgement). Therefore the accounts will require amendment to reflect the additional liability which is yet to be confirmed.

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PENSION LIABILITY ASSUMPTIONS

Continued

Significant accounting estimates

Pensions disclosures with the councils accounts are based on a number of assumptions which are made by the Actuary as Managements Expert.

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.

Colchester's share of the LGPS net pension liability reduced by £8.1 million to £94.6 million in the year. This includes an increase in scheme assets of £8.8 million from interest and gains on investments and an increase in liabilities of £0.6 million.

We have compared the assumptions used to an acceptable range and those used across the local government actuaries. The PwC consulting actuary review of the relative strength of the main assumptions suggests that the methodologies used will produce reasonable assumptions for all employers.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.40%	3.40 - 3.45%	Reasonable
- CPI increase	2.40%	2.40 - 2.45%	Reasonable
- Salary increase	3.90%	3.10 - 4.35%	Reasonable
- Pension increase	2.40%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Mortality:			
- Male current	22.9 years	22.4 - 25.0	Reasonable
- Female current	25.4 years	25.0 - 26.6	Reasonable
- Male retired	21.3 years	20.6 - 23.4	Reasonable
- Female retired	23.6 years	23.2 - 24.8	Reasonable

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower LGPS liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.2% based on average of the assumptions used by all actuaries.

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

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 you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 14 February 2019.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

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

Internal audit

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

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

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AUDIT DIFFERENCES: SUMMARY

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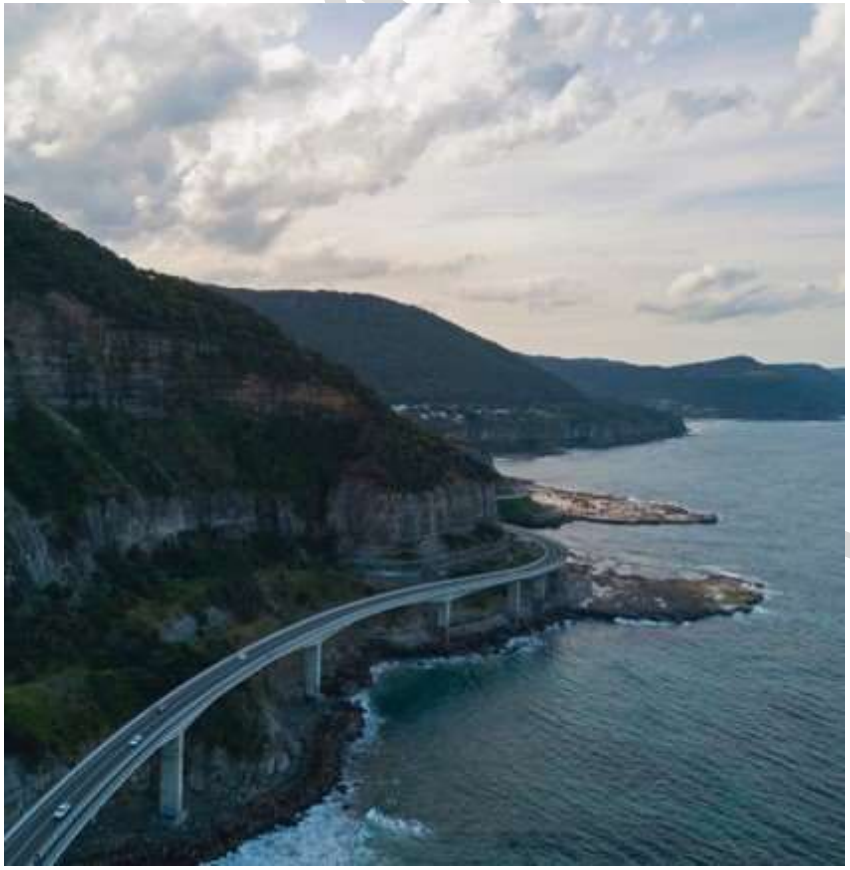

Unadjusted audit differences

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

As a result of the government not being given leave to appeal the McCloud case the Council has amended its accounts to reflect the potential increase in liability.

This decreased the draft surplus on the provision of services and decreased net assets by £1.9 million.

The general fund balance is not impacted as a result of these adjustments, however unusable reserves have decreased by £1.9 million.

We have no further unadjusted audit differences to bring to your attention although our work remains on going in certain areas. We will update the Governance and Audit Committee at the meeting on 30 July 2019.

Adjusted audit differences

We only identified amendments to disclosures these are recorded on page 17.

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UN-ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Unadjusted audit differences	NET DR/(CR) £'000	Income and expenditure DR £'000	Income and expenditure (CR) £'000	Statement of Financial Position DR £'000	Statement of Financial Position (CR) £'000
Surplus on the provision of services before adjustments	(17,596)				
1: Change in Pension Liability as a result of the McCloud Judgement					
DR Pensions Past Service Cost		1,900			
CR Pensions reserve (unusable reserve)				1,900	
Total unadjusted audit differences	1,900				
Adjusted surplus on the provision of services	(15,696)				

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We are required to bring to your attention other financial reporting matters that the Governance and Audit Committee is required to consider.

Unadjusted disclosure omissions and improvements

We have no matters to report however our work is still on going and will be subject to quality reviews which may identify other matters to report.

Adjusted disclosure omissions and improvements

There were a number of notes in the Financial Statements which were immaterial and did not require disclosure. Management have reviewed the notes and agreed to streamline the accounts in 2019/20.

Minor amendments have been made to the amounts reported for related parties.

Minor narrative amendments have been made to the senior officers remuneration note.

Amendment to the note for financial instruments (short term debtors and short term creditors) to exclude HMRC balances and payments in advance.

Reclassification of capital grants in note 34.

Our work is still on going and will be subject to quality reviews which may identify other matters to report.

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REPORTING ON OTHER INFORMATION

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

Matter	Comment
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.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

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WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council have submitted their WGA return. We are planning to submit the relevant section of the assurance statement to the National Audit Office by 31 July 2019.

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OVERVIEW

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:

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

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

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

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SUSTAINABLE RESOURCE DEPLOYMENT

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

- Significant risk
- Normal risk
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant Control Findings
- Letter of Representation point

Risk description

In January 2018, the Council set a Medium Term Financial Forecast (MTFF) covering the period 2018/19 to 2021/22. The MTFF for this period identified a total cumulative budget gap of £2.6 million.

The Council identified savings plans amounting to £2.8m in order to achieve a balanced budget in 2018/19 and in 2019/20 the required level of savings is £1.5m. The savings targets are significant and achievement of these represents a significant challenge for the Council.

Work performed

We have:

- Reviewed the assumptions used in the Medium Term Financial Strategy, particularly around the likely levels of income from commercial activities.
- Reviewed the Council's capital/revenue planning for future capital projects and investments.
- Monitored the delivery of the budgeted savings in 2018/19 and the plans to deliver identified savings for 2019/20.
- Sampled a number of saving schemes/ plans.
- Held interviews with key officers.

Results and conclusion

The Council has appropriate arrangements in place to ensure that it can sustainably deploy resources in the medium term.

We have reviewed the MTFF and the assumptions used for revenue planning and are content that these are reasonable. The Council made a surplus compared to budget of £263k in 2018/19. The Council is budgeting a break even position for 2019/20, but requires the achievement of £1.5m of savings to achieve this. The council has a fully costed plan for the achievement of the £1.5m of savings and has achieved the savings planned for 2018/19. We sampled some savings schemes and could see the detailed evidence/ support behind these. Work is underway to identify the savings required to close the gap in the medium term, they have regular discussions at informal budget (cabinet meetings) and discussions at a recent away day. The Council has £7.9m of unallocated general fund balances so has sufficient resources to cover the gap in the medium term.

We reviewed the capital monitoring and could see that plans are on track to deliver the capital projects very close to budget.

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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 the Governance and 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 do not have any significant deficiencies to report.

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OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Employment Taxes	A small sample of payments made in respect of termination of employment was examined. It was noted that where the notice period was not worked in full, a Payment in Lieu of Notice (PILON) was not specifically identified as being paid for the remaining unworked notice period. New rules were introduced in April 2018 which impose a charge to PAYE and NIC on any element of PILON. Moreover where a PILON is not specifically identified in respect of any element of unworked notice period, a sum within the compensation paid to the employee is identified equal to the PILON which would have been paid and is deemed to be chargeable to PAYE and NIC. A charge to PAYE and (Employee's and Employer's) NIC has therefore arisen on elements of compensation paid to employees after April 2018 in circumstances where they were not required to work their notice period in full.	It is recommended that the PAYE and NIC treatment of PILONs is reviewed and new procedures and policies are introduced as necessary.	

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OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Employment Taxes	New rules regarding off-payroll workers apply to public sector bodies from April 2017. The changes require public sector organisations to determine whether individual service providers (whether self-employed or operating through limited companies) are operating in a capacity that represents employment. Where this applies, the organisation engaging the worker must operate PAYE and NIC on all payments made. If HMRC are able to successfully deem an off-payroll worker to be an employee within an existing arrangement, the engaging body can be liable of the arrears of PAYE and NIC. Interest and penalties could also apply. We are advised that the Council is aware of this obligation and does not engage the services of off-payroll workers.	In any circumstances where the Council engages an off-payroll worker directly, procedures should be in place to review the employment status of the worker in question. It is advised that HMRC's on-line "check employment status for tax" facility should be consulted and in any case of doubt appropriate professional advice should be taken. It is also recommended that a Council-wide review is carried out in order to identify any risk of off-payroll workers being engaged by individual departments and therefore not visible on a centralised basis.	

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Opinion on financial statements

Based on work done to date we anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of an 'emphasis of matter'.

Conclusion on use of resources

We are proposing to issue an unmodified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Governance and Audit Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

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

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

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

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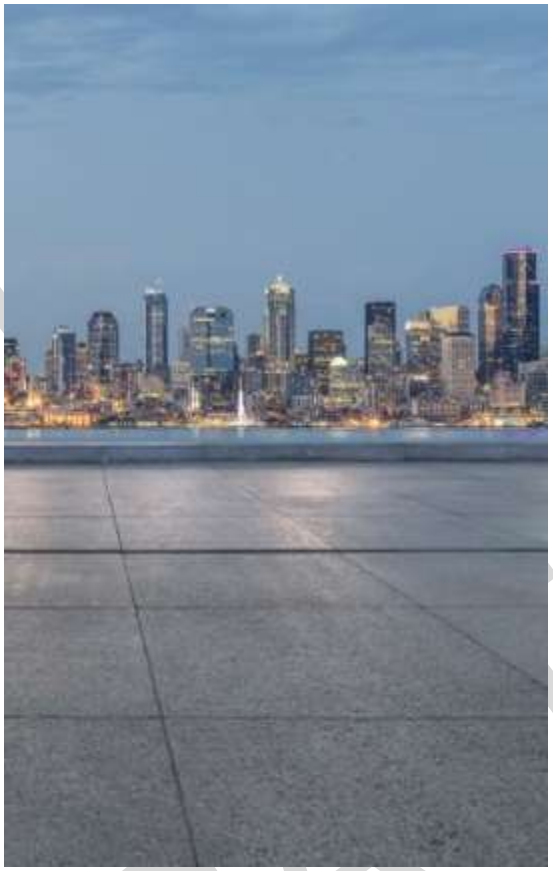
FEES

Fees summary	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
• Code audit fee: financial statements and use of resources	48,188	48,188	64,047
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	Work not yet started	13,640	13,640
Fees for other non-audit services – Housing Pooled Capital Receipts grant claim	-	4,750	4,750
Total fees		**66,578**	**82,437**



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RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

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Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Governance and Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

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ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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COMMUNICATION AND REPORTS ISSUED

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Governance and Audit Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date communicated	To whom
Fee Letter	27 April 2018	Governance and Audit Committee
Audit Plan	7 March 2019	Governance and Audit Committee
Final Audit Completion Report	30 July 2019	Governance and Audit Committee
Annual Audit Letter	August 2019*	Governance and Audit Committee

*This is the deadline for the publication of the Annual Audit Letter – this will be presented to the next available Committee.

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We have completed the majority of our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

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

Completion of audit testing:

- Reserves
- Housing and Council Tax benefits work for the accounts opinion
- Financial statement procedures
- Receipt of remaining investment confirmations
- Receipt of revised accounts

Completion procedures:

- Completion of Manager and Partner reviews
- Completion of Subsequent events review
- Receipt of letter of representation

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AUDIT QUALITY

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BDO is totally committed to audit quality

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

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

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

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Letter of representation

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[Client name and Letter headed paper]

BDO LLP

16 The Havens

Ransomes Europark

Ipswich

IP3 9SJ

Dear Sirs

Financial statements of Colchester Borough Council for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Group and the Council' financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council and other Group entities.

The Head of Finance and S151 Officer has fulfilled his responsibilities for the preparation and presentation of the Group and the Council financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Group and the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Group and the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Group and 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. Furthermore, we confirm that the disclosures included in note Note 1 (AP1) to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Group and the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

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

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 35 to the financial statements, there were no loans, transactions or arrangements between any Group entity and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

Rate of inflation (RPI): 3.4%

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.4%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

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b) Valuation of other land and buildings and investment properties

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

We confirm that the valuations applied to other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable, based on collection rate data.

d) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2019 are consistent with our knowledge of the business.

Litigation and claims

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

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Paul Cook

Head of Finance and S151 Officer

[date]

Chair of Governance and Audit Committee

(date)

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 your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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