



Audit Completion Report

Harborough District Council

Year ended 31 March 2019

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24 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 18 February 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0787 5974291.

Yours faithfully

Mark Surridge
Mazars LLP

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VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Harborough District Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Governance and Audit Committee meeting on 24 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Property, plant and equipment valuation;
- Defined benefit liability valuation; and
- Creation of subsidiary.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, which has a deadline of 13 September 2019. The Authority is below the threshold requiring a detailed review of your WGA submission, and we expect to be able to provide the information required by NAO at the conclusion of our audit work, well ahead of the formal deadline.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received no questions or objections.




1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Defined benefit liability valuation	 [Amber]	We are awaiting a letter of assurance from the auditor of the Leicestershire Pension Fund.
Whole of Government Accounts	 [Green]	We are awaiting the completed Cycle 2 DCT submission and associated working papers before we can complete our work and issue our audit certificate.

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will update the Governance and Audit Committee at the meeting on 24 July on these outstanding matters, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £731,000 using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £799,000, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Governance and Audit Committee, at £24,000 based on 3% of overall materiality. Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £519,000.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Governance and Audit Committee.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 10 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
1) Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by:

- documenting our understanding of the processes and controls in place to mitigate the risks identified, and walking through those processes and controls to confirm our understanding;
- testing the appropriateness of journal entries recorded in the general ledger and other material adjustments made in the preparation of the financial statements;
- evaluating the business rationale for any significant transactions outside the normal course of business;
- understanding the oversight given by those charged with governance of management process over fraud;
- making enquiries of management and internal audit regarding actual or any suspicions of fraud;
- considering whether the Council's accounting policies are consistent with industry standards;

Clarification from the Audit Strategy Memorandum

In our Audit Strategy Memorandum we also said we would:

- review the calculation of management's material accruals, estimates and provisions for evidence of management bias;
- sample test accruals and provisions based on established testing thresholds; and
- review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, this testing formed part of our standard audit procedures.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of property, plant and equipment and assets held for sale

Description of the risk

The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.

Relevant account balances

Where relevant, Cost of Services (Expenditure) for any impairment charges.

Those items of Property, Plant and Equipment held at valuation being Council Dwellings, Other Land and Buildings and Surplus Assets as described in Note 15.

Assets Held for Sale

How we addressed this risk

There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum.

We addressed this risk through performing the following audit work:

- reconciling valuations from the valuer's report to the entries recorded in the Fixed Asset Register;
- testing a sample of assets valued during the year to valuation reports;
- where material, testing the basis for impairment of assets, the value and correct accounting treatment;
- critically assessing the Council's valuer's scope of work and methodology used; and
- considering the impact of any assets not valued during the year.

In our Audit Strategy Memorandum we also said we would test a sample of capital expenditure in 2018/19 where material to confirm that the additions are appropriately valued in the financial statements. This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, it formed part of our standard audit procedures.

Audit conclusion

The procedures we have undertaken have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of net defined pension liability

Description of the risk

The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.

Relevant account balances

Pension liability costs as laid out in Note 43

How we addressed this risk

There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes to how the tests performed are described versus our Audit Strategy Memorandum. We addressed this risk through performing the following audit work:

- reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office; and
- agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

In addition, we

- critically assessed the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary, Hymans Robertson;
- liaised with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; and
- performed a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council (note, our Audit Strategy Memorandum implied we would perform detailed tests, which was an incorrect transposition from our Audit file).

Audit conclusion

All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. Two on-going legal issues (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these issues and early guidance given to councils was that the impact would not be material. The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. In our view, these issues give rise to at least a constructive obligation, which is required to be recognised under IAS 19. As a result the Council obtained a revised valuation via its actuarial expert incorporating these two issues and has adjusted the financial statements as a result.

We have no further matters to report and our work has provided the assurances we sought.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

3) Creation of subsidiary

To promote potential economic regeneration the Council has acquired strategic land and established a wholly owned subsidiary local authority company to own and manage this land in the short to medium term with the possibility of development in the long term. The subsidiary is intended to become the landlord for both the commercial units and the residential flats involved. The Council has loaned the funds to the subsidiary to finance the acquisition and agreed the terms of the loan and the security required

Although the establishment of the subsidiary is currently focussed on the property acquisition, the subsidiary is not limited to just managing the property and can be used for any future purchases and/or traded activity that the Council may wish to make/undertake.

This initiative and the creation of the wholly owned subsidiary local authority company represents a significant change management agenda. The changes involved impact on the values detailed in the Council's accounts for 2018/19.

How we addressed this risk (cont'd)

In relation to acquiring strategic land and establishing a wholly owned subsidiary local authority company we have:

- considered whether an appropriate approach has been taken by the Council to set up the subsidiary and to ensure that relevant transactions and valuations are reflected in the Council's 2018/19 accounts;
- tested related transactions at the Council to provide assurance over the values included in the Council's 2018/19 accounts; and
- ensured that the Council has made appropriate disclosures to reflect the creation of this subsidiary.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement

1) Debt impairment

Description of the management judgement

Uncertainty exists that, in the current economic climate, the Council's provision for the impairment of doubtful debts would be sufficient.

How our audit addressed this area of management judgement

In relation to the Council's provision for the impairment of doubtful debts we:

- reviewed the level of reported debt as at 31 March 2019 and considered the implications for any material change;
- ensured that management's methodology for calculating the provision had been consistently applied and was in line with the requirements of the Code;
- tested the collectability of both significant and a sample of other non-significant debtor balances; and
- re-performed the basis of the calculation for the impairment of debtors.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Management judgement

2) Provision for business rate appeals against the rating list

Description of the management judgement

The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.

How our audit addressed this area of management judgement

In relation to the Council's provision for business rate appeals against the rating list we:

- reviewed the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries;
- assessed whether the provision had been calculated and recorded in accordance with the Council's accounting policy;
- assessed whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and
- assessed whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention..

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement

3) Minimum revenue provision (MRP)

Description of the management judgement

Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.

How our audit addressed this area of management judgement

In relation to the Council's provision for minimum revenue provision (MRP) we:

- reviewed the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance;
- assessed whether the provision had been calculated and recorded in accordance with the Council's policy;
- assessed whether the amount provided for the period was appropriate, taking into account the Council's Capital Financing Requirement; and
- confirmed that any charge had been accounted for in accordance with the Code.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded that following the amendments that have been agreed they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstance. The Council's policies have been updated appropriately to reflect the changes for 2018/19 in respect of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers).

In recognition of the demands placed upon staff as a result of the earlier accounts production deadline, the Council has refined its closedown plan to enhance the project management of this complex process. This included providing working papers to aid the audit process, and officers engaging with the audit process in the period leading up to the year end in order to proactively address issues as they emerged.

Draft accounts were received from the Council on 28 May, in advance of the 31 May deadline, and were of a good quality. This represents a significant achievement by the finance team.

Opening Balances

We have performed relevant audit procedures on the Council's opening balances. We have no observations or matters to report relating to the opening financial position as at 1 April 2018.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management

Year –end cut off

The Council prepared its financial statements in accordance with its previous year's practice of matching 365 days cash receipts into each financial year. For 2018/19, this meant that any income received on or after 29 March 2019, being the last working day of the year, was not classified on the balance sheet and was receipted in 2019/20.

Our review identified £2.145 million of income received between 29 March and 31 March, of which £1.557 million relates to the settlement of an outstanding debtor. We recognise the Council has prepared the financial statements on a consistent basis to prior years, but we have requested, and management have agreed, that the Council reclassify the £1.557 million debtor and a further £0.105 million of debtors on the Council's balance sheet, being transfers between current debtors and cash with no overall impact on current assets. Management have agreed to amend this accounting practice for future years.

Significant difficulties during the audit

During the course of the audit we had the co-operation of management. We would like to express our thanks to management and officers for their co-operation during our scheduled visits.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no questions or objections.

Our draft audit report, in full, is set out in Appendix B.



3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	2018/19 issues identified	2017/18 issues reported
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1	0



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 2

Controls in place in regard to cut-off for cash and trade debtors

During the testing of trade debtors balances it was noted that a Section 106 value of £1.557 million had been received in the bank on 29 March 2019, but the balance was still being recognised as a trade debtor. The balance had also been reviewed as a reconciling item as a difference between the bank balance and the cash trial balance codes. The total amount of items that had been paid into the bank that had not been recognised in the financial statements was £2.146m and the Council agreed to review the residual balance to identify if any further amounts should be reclassified.

Potential effects

Whilst the Council's approach ensured 365 days of transactions were included in a financial year, there is a risk, as above, that some material debtors may be recorded in the financial statements that have been settled.

Recommendation

We recommend that the Council revises the date for closure of transactions at the year-end to 31 March and states the debtors position and the cash values in line with the period stated in its financial statements.

Management response

[To be inserted]

Other deficiencies in internal control – Level 3

Controls in place in regard to contracts of employment

In testing payroll records, 5 employment contracts had not been signed by the employee.

Potential effects

Internal controls regarding the signing of contracts have been put in place by the Council for a reason and these should be followed. Failure to follow such controls undermines the effectiveness of the control and could have a potentially detrimental impact on the Council should there be an issue relating to an employee's unsigned employment contract.

Recommendation

The Council should ensure retained copies of employment contracts have been signed.

Management response

[To be inserted]

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised by KPMG in the prior year.

Controls in place in regard to the valuation process – Level 2

The Code requires that assets are revalued once every five years as a minimum. The last full revaluation was four years ago, but in 2017/18 the Authority had moved to a rolling programme of valuing 20% of assets per year. However all remaining 80% of assets need to be revalued in 2018/19 to avoid exceeding the 5 year maximum.

Potential effects

Without action being taken 60% of assets would have a valuation that is out of date and not Code compliant at the end of 2018/19.

2018/19 update

Completed.

Our 2018/19 testing of land and buildings valuations confirmed that all the Council's assets were valued for 2018/19 resulting in an £18m increase in the balance sheet value. We obtained sufficient evidence to conclude the Property, Plant and Equipment figure for 2018/19 was materially correct.

Controls in place in relation to the payroll system – Level 2

The Authority's payroll function was outsourced to Leicester City Council (LCC). During the 2017/18 audit period, LCC migrated to a new payroll processing software system. KPMG's IT controls testing did not provide the required assurance and LCC officers were reviewing the position.

Potential effects

There was a risk that the Authority would have to continue to carry out additional checks on payroll figures if there were on-going issues with the payroll system.

2018/19 update

Superseded.

Our 2018/19 testing noted that a further new payroll system has been implemented during the year and such matters are being addressed as part of the implementation process.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of our trivial threshold of £0.9m.

The table below outlines the misstatements that have been adjusted by management during the course of the audit.

	Before	After
1 Balance Sheet - Net Pension Liability	33,843	35,512
Comprehensive Income and Expenditure Statement – Cost of Services: Service Costs	2,085	2,711
Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure: Net interest expense	751	759
Total re-measurements recognised in Other Comprehensive Income and Expenditure	3,817	4,852
<p>In line with the vast majority of all local authorities, The Council has updated figures as a result of a revised actuarial valuation, taking into account assumptions for the McCloud judgement and actual performance of the pension fund to 31 March 2019. There are also additional consequential changes to the Pension Fund note, but none of these items impact the Council's General Fund. Whilst the adjustments have been processed by the Council, we have not yet completed our review. We will update the Audit and Governance Committee on 24 July.</p>		
2 Cash and Cash Equivalents	1,188	2,850
Debtors	8,667	7,005
<p>Being the reclassification between cash and debtors to recognise that a £1.557million debtor and a further £0.105 million of debtors were settled before the year-end. As outlined below no adjustment has been made for the remaining £0.483 million of income received before the year-end. There is no impact on total current assets.</p>		

Disclosure amendments

During our review of the financial statements we identified some minor amendments to disclosures. These disclosure issues were corrected by the Council in the final version of its financial statements for 2018/19.

Unadjusted Misstatements

There was one unadjusted misstatement that was identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust. This relates to £0.483 million of income received before the year-end which is not being shown under cash and cash equivalents in the Council's balance sheet.

5. VALUE FOR MONEY CONCLUSION

Introduction

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

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

Our Approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As set out in our Audit Strategy Memorandum, for the 2018/19 financial year, we identified a significant risk to our VFM conclusion:

- Delivery of budgets

Our detailed findings are set out below. Based on the work performed, we are satisfied that the Council's arrangements are adequate.

Risk	Work undertaken	Conclusion
<p>Delivery of budgets –The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2018/19. The 2018/19 budget consolidated the organisational change and savings programmes undertaken in previous years and included £0.66m of savings and income generation proposals. On this basis in February 2018, the Council approved a balanced 2018/19 budget. The budget included the required S.151 Officer assurances relating to the robustness of the budget and the adequacy of the level of reserves. The Council acknowledged the risks around the delivery and timing of savings initiatives and the need to address medium term budget shortfalls from 2019/20 onwards.</p> <p>The 2018/19 budget assumed a drawdown of £0.96 million from the General Fund to support planned expenditure. The outturn position of the Council for 2018/19 shows a net contribution of £0.21 million to the General Fund and represents a favourable financial outturn.</p> <p>There will be significant changes in Local Government finances over the next few years, which will culminate in a major change in the way Local Government is financed from 2020/21 onwards. These include the 2019 Spending Review, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50% retention). As a result, the need for savings (or income generation) will continue to have a significant impact on the Authority's financial resilience.</p>	<p>We have assessed whether any matters have come to our attention through the course of our audit that lead us to conclude that a risk to our 2018/19 VFM conclusion does indeed exist. We addressed this requirement by reviewing the Council's arrangements for developing and delivering its MTFP and for working in partnership.</p>	<p>We obtained sufficient assurance to conclude that the Council continues to have appropriate arrangements in place.</p>



5. VALUE FOR MONEY CONCLUSION

Matters kept under review

Before drawing our conclusion, we have:

- updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports;
- reviewed the Council's Annual Governance Statement for any significant issues; and
- considered the Council's financial outturn position as presented in the financial statements.

From the work performed, no new significant VFM risks were identified and we have no matters to report.

Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
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Nottingham
NG1 5DW

24 July 2019

Dear Mark

The Council's management representation letter should be provided to us on client headed note paper.

Harborough District Council - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the statement of accounts for Harborough District Council (the Council) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

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

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Head of Finance and Corporate Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

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APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Head of Finance and Corporate Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Head of Finance and Corporate Services
24 July 2019

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APPENDIX B

DRAFT AUDITOR'S REPORT

Responsibilities of the Head of Finance and Corporate Services for the financial statements

As explained more fully in the Statement of the Head of Finance and Corporate Services Responsibilities, the Head of Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Head of Finance and Corporate Services is also responsible for such internal control as the Head of Finance and Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Head of Finance and Corporate Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Head of Finance and Corporate Services is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Harborough District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respect Harborough District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Harborough District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Harborough District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Surridge

For and on behalf of Mazars LLP

Park View House
58 The Ropewalk
Nottingham
NG1 5DW

26 July 2019

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APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



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