



Three Rivers District  
Council

Audit results report  
Year ended 31 March 2019

22 July 2019



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Private and Confidential

22 July 2019



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Three Rivers District Council for 2018/19.

We have substantially completed our audit of Three Rivers District Council for the year ended 31<sup>st</sup> March 2019.

Subject to concluding the outstanding matters listed in our report, we plan to issue an unqualified audit report on the financial statements in the form at Section 3 before the accounts publication deadline date of 31 July 2019. We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 23<sup>rd</sup> July 2019

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 26<sup>th</sup> March 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1,060,000, with performance materiality, at 50% of overall materiality, of £531,000, and a threshold for reporting misstatements of £53,000. For year end, we updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1,030,000. This results in updated performance materiality, at 50% of overall materiality, of £516,000, and an updated threshold for reporting misstatements of £51,000.

## Status of the audit

We have substantially completed our audit of Three Rivers District Council's financial statements for the year ended 31<sup>st</sup> March 2019 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of our procedures, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until the following work is complete, further amendments may arise:

- Receipt and review of estimated indexation movements from 1 April 2018 to 31 March 2019 on Land and Buildings not included in the annual cycle of valuations this year - to support completion of valuations testing;
- Reconciliation of Property, Plant and Equipment disclosures to the supporting subledgers;
- Testing of Property, Plant and Equipment;
- Testing disclosures for Officers remuneration, Exit packages, Related parties; Reserves; IFRS9 and IFRS15 impacts assessments; and the Collection Fund disclosures.
- Receipt and review of revised draft accounts, reflecting all accounting and disclosure adjustments to date and Authority-led updates across areas of agreed adjustments such as the pensions changes and narrative disclosure changes;
- Pension Liability testing and review of revised IAS19 report from the actuary received on 28 June 2019. Testing of actuarial calculations, assumptions and subsequent amendments to financial accounting;
- Receipt and review of letters of assurance from management and those charged with governance;
- NDR Appeals provision testing;
- Journal Entry Testing;
- Procedures for debtors, creditors, income testing and expenditure testing;
- Review of the Head of Shared Internal Audit Services Annual Audit Opinion;
- Completion of procedures required by the NAO to review and report on the Whole of Government Accounts return; and
- EY Manager and Associate Partner review of audit working papers.

We expect to issue the audit certificate at the same time as the audit opinion.

## Executive Summary

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### Audit differences

As at the date of drafting this audit report:

One audit difference has been identified for adjustment from our work. The IAS19 report received from Hymans Robertson on 12<sup>th</sup> April was revised on 28<sup>th</sup> June. Net Pension Liabilities were restated from £25,929,000 to £26,672,000, with an overall net increase in Total Comprehensive Expenditure of £743,000. Details are shown in Section 4 of this report.

There are no unadjusted audit differences arising from our audit.

### Areas of audit focus

Our audit planning report identified key areas of focus for our audit of Three Rivers District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

# Executive Summary

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## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Our work was still subject to Manager and Associate Partner review at the time of writing this report.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work. Our work was still subject to Manager and Associate Partner review at the time of writing this report.

Our procedures include those required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This work was ongoing at the time of writing this report. Our work was still subject to Manager and Associate Partner review at the time of writing this report.

We have no other matters to report.

## Independence

Please refer to Section 09 for our update on Independence.



## 02 Areas of Audit Focus





## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error\*

##### What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

We identify and respond to this risk on every audit engagement.

##### What judgements are we focused on?

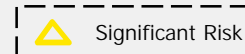
As part of our work we focused on the key judgemental areas of financial statements, such as accounting policies; unusual transactions; and the key accounting estimates.

##### What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks;
- Understood the oversight given by those charged with governance of management's processes over fraud;
- Considered of the effectiveness of management's controls designed to address the risk of fraud;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assessed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for significant unusual transactions.

##### What are our conclusions?

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position. Our work was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified.





# Areas of Audit Focus

## Significant risk

### Incorrect accounting for manual accruals\*

#### What is the risk?

[Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.

A key way of improving the revenue position is through inappropriate timing or measurement of estimates, manual accruals around the year end being a typical estimate that could be affected.

#### What judgements are we focused on?

Correctness of recognition of manual accruals within accounting periods.

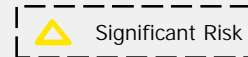
#### What did we do?

We will focus our journals testing strategy around the year-end period, with a particular focus on those manual entries that impact income and expenditure.

Where there is any management estimation or assumptions involved in the calculation of year end accruals we will ensure that the rationale provided by management is appropriate and clearly documented on file via minutes of conversations held by management.

#### What are our conclusions?

Our work was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified.





## Areas of Audit Focus

### What is the risk/area of focus?

#### Valuation of Other Land and Buildings

Land and Buildings within Property, Plant and Equipment were valued at £52,519,000 at 31 March 2018 and Investment Properties were valued at £3,369,000 as at that date. These represent significant balances in Three River's District Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Detailed valuation work is undertaken by the Council's valuers Wilkes, Head and Eve.

Wilkes, Head and Eve plan to undertake detailed revaluation work at the end of December and the Council plans to apply an adjustment to reflect estimated valuation movements in the last three months of the year. We note that on 29th March 2019 the UK is scheduled to leave the European Union and due to uncertainties fluctuations in value may be more difficult to predict around this time.

#### Other Additions to the Capital Programme

2017-18 saw Additions to Property, Plant and Equipment of £13,464,000. Even with routine capital acquisitions and enhancements, there is an inherent risk that revenue expenditure (e.g. repairs and maintenance) could be incorrectly capitalised.

### What did we do?

- Considered the work performed by the Council's valuers Wilkes, Head and Eve, including the scope of the work performed on valuations at 31 December 2018 and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise.
- Confirmed effective procedures are applied by the Council to roll forward valuations from 31 December 2018 to the year end.
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Reviewed any assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. Consider changes to useful economic lives as a result of the most recent valuation.
- Tested accounting entries have been correctly processed in the financial statements.
- Reviewed valuer reports and findings to determine whether specialist EY valuer review of methodologies, data and assumptions is required.

Our work was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified.

We note also that at the time of writing this report, the UK's departure from the European Union had been delayed.

Sample tested additions to Property, Plant and Equipment to confirm they meet appropriate criteria for capitalisation.

Our work was ongoing at the time of writing this report. There were no adjusted or unadjusted differences identified from our testing.



# Areas of Audit Focus

## What is the risk/area of focus?

### Valuation of Pension Fund Assets and Liabilities

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council.

Three Rivers District Council's pension fund assets and liabilities are material estimated balances and the Code requires that the liability be disclosed on the Council's balance sheet. At 31 March 2018 the net liability was valued at £21,724,000. As noted in our Audit Results Report for 2017-18, this balance was stated gross of an adjustment to increase pension fund assets by £1,400,000, being the Council's share of the difference between the actuary's valuation of the Pension Fund's assets and the Fund's auditor's assessment of those asset values.

Asset and Liability values captured in Three Rivers District Council's 2018-19 accounts will again derive from information issued to the Council by the actuary to Hertfordshire County Council and will again involve significant estimation and judgement.

We note that on 29th March 2019 the UK is scheduled to leave the European Union and asset values may be particularly difficult to estimate around this time. We note also that ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

## What did we do?

- Liaised with the auditors of Hertfordshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Three Rivers District Council.
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used.
- Reviewed and test the accounting entries and disclosures made within Three Rivers District Council's financial statements in relation to IAS19.

The net Pension Liability was valued at £25,929,000 by Hymans Robertson in their 12th April 2019 IAS19 Accounting Summary to Three Rivers District Council.

However, a national issue has resulted in a relatively late change to the District Council accounts and IAS19 disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The unaudited Statement of Accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the ruling by the Supreme Court on 27th June 2019 which denied the Government's leave to appeal, which suggested that the amounts should in fact be treated as a constructive obligation and so included in the IAS19 liability disclosed within the financial statements. On 28 June 2019, a revised actuarial report was issued by Hymans Robertson restating this to £26,672,000.

Our work was ongoing at the time of writing this report. The increase in the overall value of the defined benefit liability will be reflected in a revised version of the accounts, and work to ensure the correct adjustment is ongoing as at the date of drafting this report.



## Areas of Audit Focus

### What is the risk/area of focus?

#### Accounting for South Oxhey Park

In our review of the draft financial statements, we identified that the accounting entries in relation to the South Oxhey development did not reflect the change in intended future use of the assets. Following discussions with officers, we concluded that the planned use, the substance of which changed with effect from the 31 March 2018, required adjustments to be made in the accounts. The South Oxhey project was accordingly reclassified from Plant Property and Equipment and Investment Properties to inventory at year end, on the basis that the assets are to be developed and sold to a third party (Countryside – property developer). The net impact was to increase inventories by £4,900,000 and the deferral of £18,100,000 of other income in income statement to the deferred revenue receipt account. At the time of writing this report, the intention was to continue with this accounting treatments for 2018-19.

#### Valuation of NNDR Appeals Provision

Three Rivers District Council's NNDR Appeal Provision was valued at £1,604,000 at 31 March 2018. This is a high value estimate driven by complex calculations.

### What did we do?

We confirmed there has been no change in the intended future of the asset and the accounting treatment remains consistent with our understanding. At 31 March 2019, South Oxhey Park inventory and deferred income were valued at £16,277,000. Our work was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified.

We considered the work performed by Inform, including the scope of the work, data provided to Inform and assumptions used.

Compared the level of appeals at 31 March 2019 and 31 March 2018 to assess the reasonableness of amounts provided for at year end.

Our work was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified.



# Areas of Audit Focus

What is the risk/area of focus?	What did we do?
<p><b>New Accounting Standards</b> IFRS 9 financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:     How financial assets are classified and measured;     How the impairment of financial assets are calculated; and     The disclosure requirements for financial assets.</p> <p>There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</p>	<p>Assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;</p> <p>Considered the classification and valuation of financial instrument assets;</p> <p>Reviewed new expected credit loss model impairment calculations for assets; and</p> <p>Checked additional disclosure requirements. Our work was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified.</p>
<p><b>IFRS 15 Revenue from contracts with customers</b> This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements will be introduced.</p>	<p>Assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include Local Authority Trading Companies consolidated into the Authority's Group Accounts;</p> <p>Considered application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and</p> <p>Checked additional disclosure requirements. Our work was ongoing at the time of writing this report. As at that date no adjusted or unadjusted differences had been identified.</p>



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THREE RIVERS DISTRICT COUNCIL

##### Opinion

We have audited the financial statements of Three Rivers District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Movement in Reserves Statement;
- Authority Comprehensive Income and Expenditure Statement;
- Authority Balance Sheet;
- Authority Cash Flow Statement;
- The related notes 1 to 39 to the Authority accounts; and
- Collection Fund and the related notes CF1 and CF2;.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Three Rivers District Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.





# Audit Report

## Our opinion on the financial statements

### Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014  
Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Three Rivers District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



# Audit Report

## Our opinion on the financial statements

### Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 1, the Chief Financial Officer 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.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so. The Authority 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.

### 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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Three Rivers District 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 under the Code of Audit Practice in satisfying ourselves whether Three Rivers District 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, Three Rivers District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



# Audit Report

## Our opinion on the financial statements

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Certificate

We certify that we have completed the audit of the accounts of Three Rivers District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

## Use of our report

This report is made solely to the members of Three Rivers District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
XX July 2019

The maintenance and integrity of the Three Rivers District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# 04 Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We highlight the following misstatements greater than £516,000 which have been corrected by management that were identified during the course of our audit:

Net Pension Liabilities increased by £743,000. Total Comprehensive Expenditure also increased by £743,000.

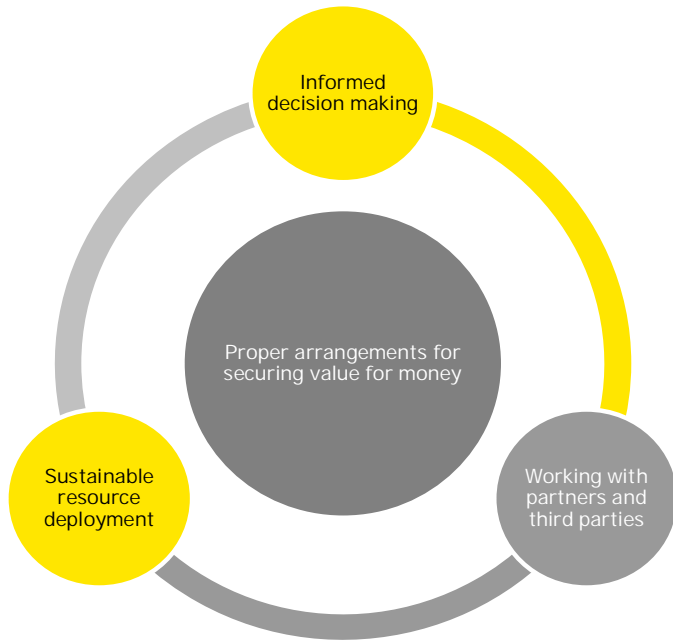
As more fully explained on page 12, this change was to reflect the impact of legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling.

There were no uncorrected misstatements.



05

## Value for Money Risks



## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation 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"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources subject to completion of our work in this area.



## 06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Annual Governance Statement with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Annual Governance Statement and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report. Our work was still subject to Manager and Associate Partner review at the time of writing this report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet completed our work in this area and will report any matters arising to the Audit Committee.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Three Rivers District Council's financial reporting process. At the time of writing this report, there were no matters to report.



07

## Assessment of Control Environment



# Assessment of Control Environment

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## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



# 08 Data Analytics



# Use of Data Analytics in the Audit

## ► Data analytics

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

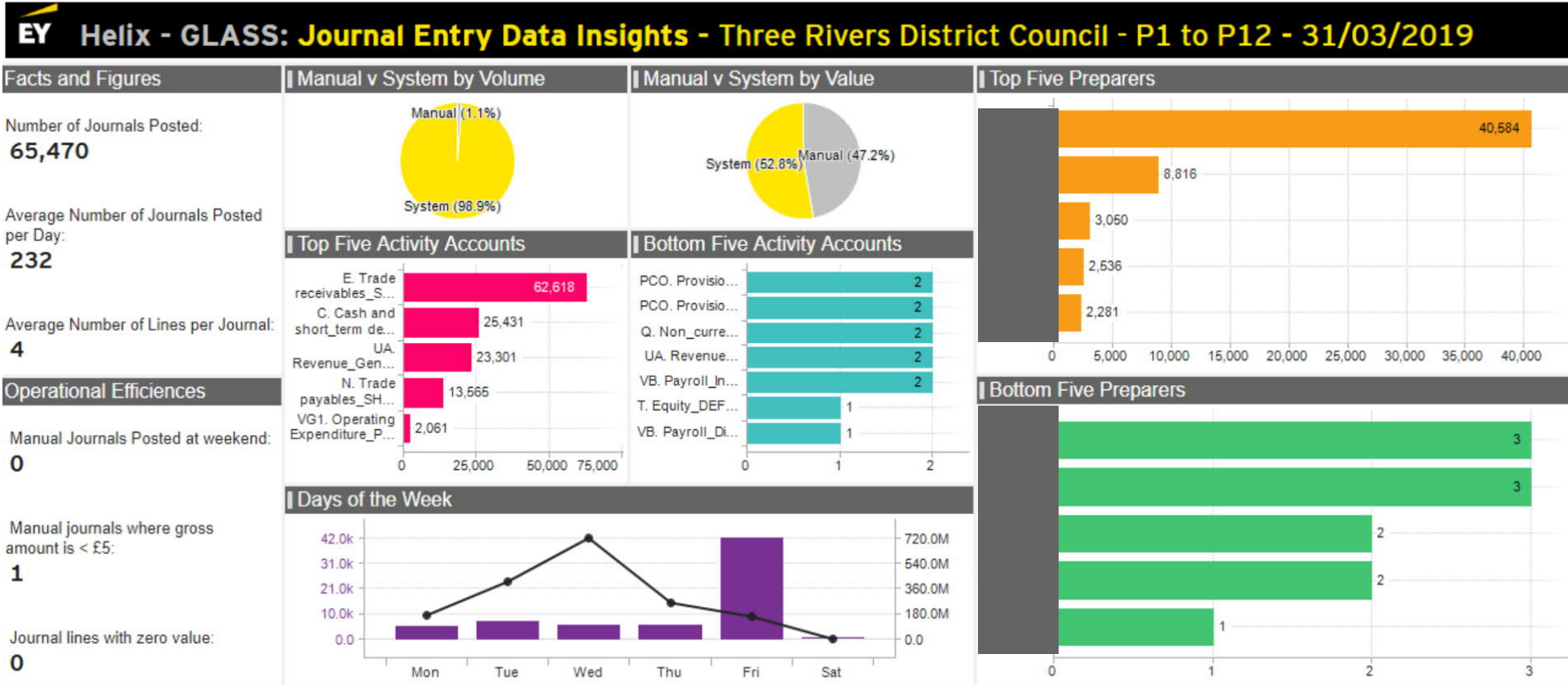


# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





## Journal Entry Testing

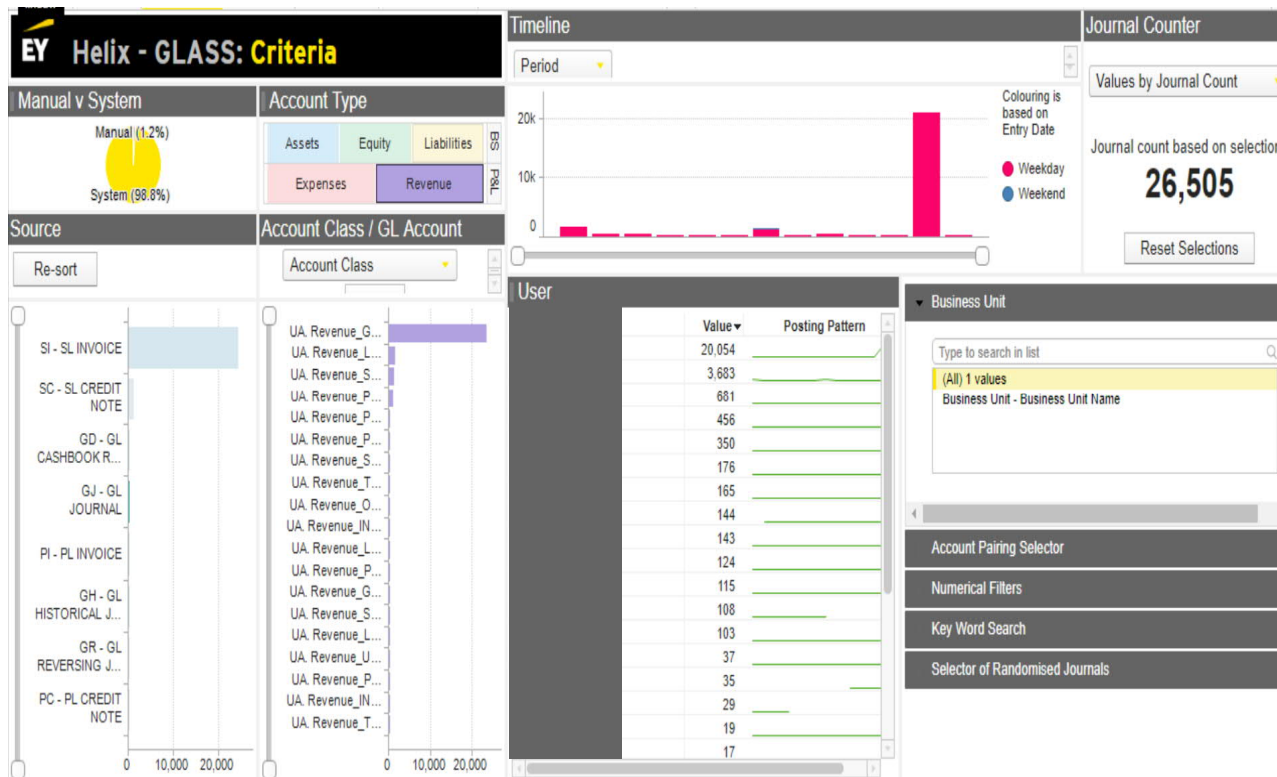
### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2019

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

# Independence



## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 26<sup>th</sup> March 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 23<sup>rd</sup> July.

We confirm we have not undertaken non-audit work outside the NAO Code requirements other than certification of HB grant claims.

# Independence



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1<sup>st</sup> April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The following page of this report includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements other than HB grant claim certification. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	TBC	40,021	40,021	54,387
Total non- audit services (HB Grant claims)	TBC	10,602 plus £1,000 - £4,000 per 40+	10,602 plus £1,000 - £4,000 per 40+	13,244



# 10 Appendices

# Audit approach update

We summarise below our approach to the audit of the balance sheet/s and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all relevant assertions	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Trade payables	Substantively tested all relevant assertions	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

 Appendix B

# Summary of communications





Date	Nature	Summary
January 2019	Report	The audit planning report, including confirmation of independence, was issued for the Audit Committee.
February 2019	Meeting	The Associate Partner and Manager met with the Audit Committee and senior members of the management team to discuss the audit planning report.
July 2019	Meeting	The Manager met with senior members of the management team to discuss the final audit.
July 2019	Report	The audit results report, including confirmation of independence, was issued to the Audit Committee.

In addition to the above specific meetings and letters the audit team including the partner in charge of the audit met with the management team multiple times throughout the audit and held calls to discuss audit findings and specific technical issues around McCloud, etc.




## Appendix C

# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:





 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by Those Charged with Governance of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Three Rivers District Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	No subsequent events have been identified that would impact either individually or together on Three Rivers District Council's financial statements as at 31 March 2019
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	<p>Audit results report.</p> <p>No issues to report.</p>







# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report.  No matters to report.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report and Audit results report

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report. Notes that an action plan needs to be implemented to address gaps in required internal audit standards. No other significant deficiencies were identified.

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report Audit Results Report

# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]  
XX July 2019

Maria Grindley  
Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading, RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of Three Rivers District Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Three Rivers District Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with [CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

# Management representation letter

## Management Rep Letter

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

- Additional information that you have requested from us for the purpose of the audit; and

- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 23 July 2019.

# Management representation letter

## Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 36 to the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

\_\_\_\_\_  
(Chief Financial Officer)

\_\_\_\_\_  
(Chairman of the Audit Committee)

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