

Hertsmere Borough  
Council  
Audit results report  
Year ended 31 March 2018

19 July 2018



**EY**

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19 July 2018



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 audit conclusion in relation to the audit of Hertsmere Borough Council for 2017/18.

We have substantially completed our audit of Hertsmere Borough Council (the Authority) for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on 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 30<sup>th</sup> July 2018.

Yours faithfully

Andrew Brittain

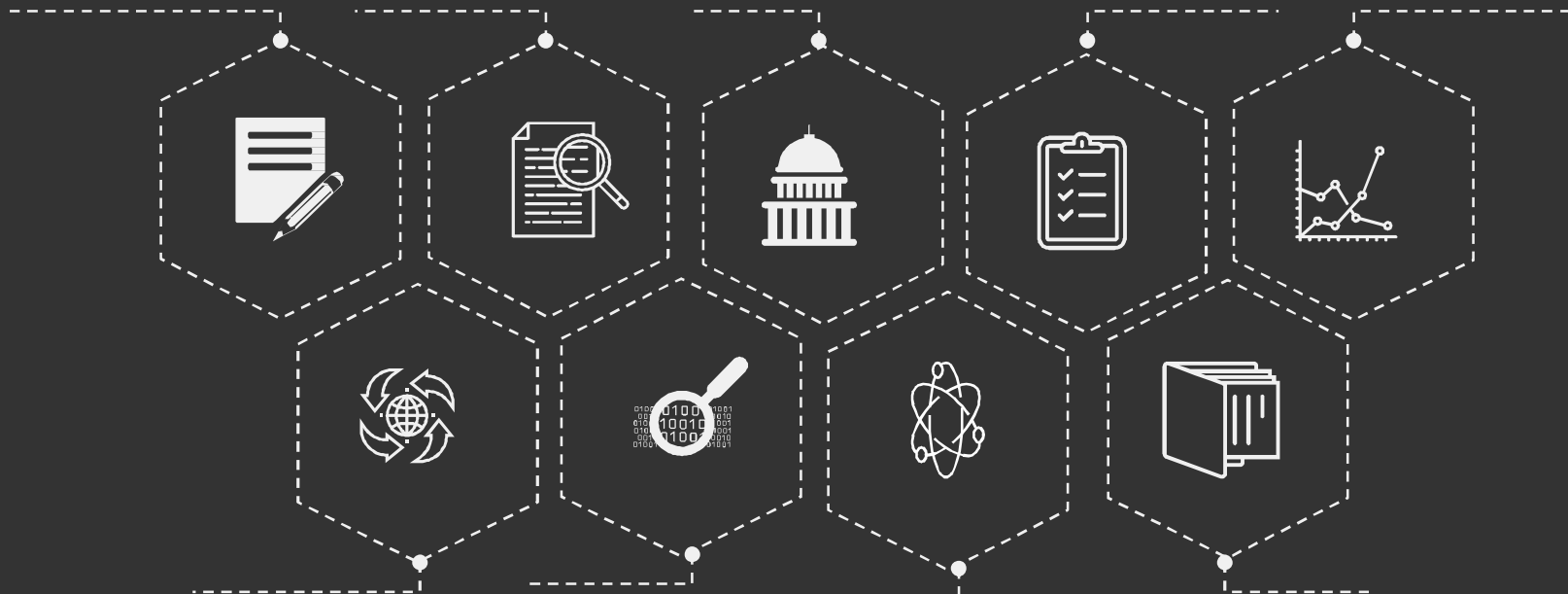
Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The 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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Hertsmere Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hertsmere Borough Council those matters we are required to state to them in this 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 Audit Committee and management of Hertsmere Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our Audit Planning Report tabled at the 18<sup>th</sup> January 2018 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

We updated our planning materiality assessment using the draft statement of accounts 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 £1.48 million (reported in Audit Planning Report – as £1.47 million). This results in updated performance materiality, at 75% of overall materiality, of £1.1 million, and an updated threshold for reporting misstatements of £74k. Group planning materiality has reduced slightly from £1.531m to £1.492m, with our performance materiality reducing accordingly from £1.14m to £1.12m. Our threshold for reporting misstatements at group level has reduced from £76.6k to £74.6k.

## Status of the audit

We have substantially completed our audit of Hertsmere Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items noted below, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Review of work completed on property valuation
- Completion of work on housing benefit costs using modules provided by PSAA, information has been received and is due to be reviewed by audit team.
- Receipt of 3 outstanding investment confirmations
- Review of the component auditor reporting pack received on 18<sup>th</sup> July from the component auditor together with review of requested working papers
- Clearance of final queries arising from review by Associate Partner and manager
- Completion of procedures required for whole of government accounts
- Completion of subsequent events review
- Receipt of the signed management representation letter.

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



# Executive Summary

## Audit differences

There has been one material adjustment to the accounts during the audit. This follows the receipt of a letter from the auditor to Herts Pension Fund which highlighted that due to an improved known position at year end, since the point at which the original IAS 19 reporting information was provided to Hertsmere Borough Council, the share of the net assets in the fund as at 31 March 2018 has increased by £1.408m. Details can be found in Section 5 Audit Differences.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Hertsmere Borough Council 's financial statements This report sets out our observations and conclusions. 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

## 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.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We highlighted to officers the need to bring together the Annual Governance Statement, the associated action plan and the Local Code of Governance. SIAS also made some revisions to the Annual Governance Statement in the light of feedback provided by CIPFA on the 16/17 Annual Governance Statement.

We are yet to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission but we anticipate that there will be no issues regarding this as the Council is below the threshold that triggers detailed procedures.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence.



## 02 Areas of Audit Focus





## Areas of Audit Focus

# Significant risk

### Risk of fraud in revenue and expenditure recognition including management override of control

#### What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. 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. ISA240 also recognises that 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 otherwise appear to be operating effectively. The manipulation of revenue or expenditure would occur through management override of control. In our Audit Planning Report we had presented these risks separately but given the inherent link in the work required to address them we are reporting our response and findings in respect of both of these risks together in the sections below.

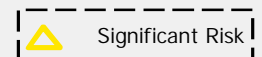
#### What did we do?

In response to the risk, we:

- Enquired of management about risks of fraud and the controls in place to address those risks;
- Considered the oversight given by those charged with governance of management's processes over fraud by direct enquiry;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Reviewed and tested revenue and expenditure recognition policies;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias;
- Evaluated the business rationale for any significant unusual transactions;
- Reviewed and tested revenue and expenditure cut-off at the period end date;
- Tested a sample of capital expenditure to verify that revenue costs have not been inappropriately capitalised;
- Reviewed the basis for calculating the bad debt and non domestic rates appeals provisions;
- Verified that adjustments between the accounting basis and funding basis have been correctly made in accordance with the Code; and

Our work on Elstree Film Studios is not complete at the time of drafting this report and we will update the Committee on the 30<sup>th</sup> July. Our planned procedures include:

- Reviewing and testing revenue recognition policies
- Reviewing and discussing with management any accounting estimates on revenue recognition for evidence of bias
- Developing a testing strategy to test material revenue streams
- Reviewing and testing revenue cut-off at the period end date.





## Areas of Audit Focus

### Significant risk

Risk of fraud in revenue and expenditure recognition including management override of control

#### What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates.
- Cash income, cash expenditure and payables cut-off.
- Revenue and expenditure recognition policies.
- Journal entries.
- Unusual transactions.

#### What are our conclusions?

- We obtained the responses we requested from management and those charged with governance to our enquiries and used these to inform our understanding of fraud risks. We noted that key elements of the entity level control framework that we would expect to see, especially arrangements for internal audit, and risk management, were in place.
- Our walkthrough testing included considering what controls are in place to address significant risks. We concluded that these are in large part year end processes including management review of the draft financial statements. We confirmed that these controls were in place, although our approach was not to rely on controls.
- Our testing of income and expenditure items did not identify any material errors.
- We reviewed a sample of journals using a number of criteria and did not identify any inappropriate use of journals.
- Our work on the testing of accounting estimates has been completed (other than our work on property valuation) and no significant issues identified.
- We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.
- We did not identify any material cut-off issues at the period end date.
- Our testing of a sample of capital expenditure items found that these had been appropriately treated as capital.
- The majority of the bad debt provision is in respect of housing benefit overpayments, we agreed the basis of the provision. Our work on the non domestic rates appeals provision is complete and subject to engagement lead review, we are satisfied that it is appropriately calculated.
- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.

Overall, our audit work to date has not identified any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Authority's financial position, that revenue or expenditure has been incorrectly recorded or that management has overridden control.



## Areas of Audit Focus

### Other Areas of Audit Focus

#### Property, plant and equipment valuation

##### What is the risk?

Property, plant and equipment (PPE) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying estimates.

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

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- significant changes in the asset base;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

##### What did we do?

Our approach focused on:

- § Considering the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- § Using our EY Valuers to review the response to audit enquiries made to Wilks Head Eve LLP regarding their approach and methodology where employed by our local government clients;
- § We referred one valuation (Bushey Golf and Country Club) to our EY Valuers due to the significant reduction in value of the land for this asset;
- § Reviewing what information on the asset base was provided to the valuer by the Authority to inform the updated valuation; and
- § Testing accounting entries have been correctly processed in the financial statements.

##### What are our conclusions?

The EY Valuer have reported back to the audit team that they consider that the valuation of the Bushey Golf and Country Club is reasonable in the circumstances but that the value of this asset needs to be revisited when its future becomes clearer. We are in the process of completing our work in this area and will update the Committee of any further issues at the meeting on 30 July.



## Areas of Audit Focus

### Other Areas of Audit Focus

#### Pension liability valuation

##### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) scheme.

The Authority's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Authority's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary accounting for pension obligations involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.

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

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- significant changes in assumptions made by the actuary; and
- the assessments of the actuary undertaken by PWC and the EY actuarial team.

##### What did we do?

- Liaised with the auditors of the Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hertsmere Borough Council ;
- Assessed the work of the Local Government Pension Fund actuary Hymans Robertson. This included the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

##### What are our conclusions?

The Council has amended the draft statement of accounts to reflect an up to date estimate from the actuary of its share of the Hertfordshire Pension Fund asset value as at 31<sup>st</sup> March 2018. The statement of accounts had been prepared based on IAS19 data and assumptions taken as at December 2017, with a forecast of the 31 March 2018 position. The Hertfordshire Pension Fund accounts include an up to date estimate of the fund asset value as at 31 March 2018, and this was £67million higher reflecting improvements in market conditions. Hertsmere Borough Council's share of this difference in estimate is £1.408 million. As this difference is above our performance materiality (but below our planning materiality), the Council have agreed to adjust its financial statements and disclosures to reflect this up to date estimate. The Council have obtained from its actuary up to date IAS19 disclosures and we will check the completeness and accuracy of the adjustments to the accounts.



# Areas of Audit Focus



## Other matters

### IFRS 15

The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The 2018/19 Code will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies.

The CIPFA/LASAAC Local Authority Accounting Code Board met on 6 June 2017. This board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom.

The minutes of this meeting corroborate our view that income streams from contracts with customers are immaterial for the Authority. The vast majority of the Authority's income streams are taxation or grant based. Income from taxation and grants does not fall within the scope of IFRS 15 as it is not contractually based revenue from customers.

It is our view, that IFRS 15 will not have a material impact on this Authority's financial statements.



## 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERTSMERE BOROUGH COUNCIL

##### Opinion

We have audited the financial statements of Hertsmere Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Collection Fund and the related notes 6.2 to 6.3; and
- the related notes 5.1 to 5.38 to the Authority accounts, and notes 7.5 to 7.6 to the group accounts.

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 2017/18.

In our opinion the financial statements:

give a true and fair view of the financial position of Hertsmere Borough Council and Group as at 31 March 2018 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 2017/18.

##### 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 group 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.



# Audit Report

## Our opinion on the financial statements

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 Corporate Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate;
- the Corporate Director 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.

### 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 Corporate Director 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, Hertsmere Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.





# Audit Report

## Our opinion on the financial statements

### 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.

### Responsibility of the Corporate Director

As explained more fully in the Statement of the Corporate Director's Responsibilities set out on page 1, the Corporate Director 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Corporate Director 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.



# Audit Report

## Our opinion on the financial statements

### *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 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 under the Code of Audit Practice 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 2018.

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.

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 Hertsmere Borough 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.



# Audit Report

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## Our opinion on the financial statements

### Use of our report

This report is made solely to the members of Hertsmere Borough 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.

Andrew Brittain (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
July 2018

The maintenance and integrity of the Hertsmere Borough 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.

A woman with long brown hair, wearing a dark sleeveless top, is pointing her right index finger at a large wall of digital screens. The screens display various financial charts, including line graphs with green and red lines, and data tables. The background is dimly lit, emphasizing the bright screens.

# 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

As outlined in our audit planning report we highlight the following differences, which have been adjusted by management, that we believe merit the attention of the audit committee:

The actuary's estimate (at 31 December 2017) of the expected value of the Hertfordshire Pension Fund's Net Assets at 31 March 2018 was £67.0m less than the Pensions Fund Net Assets as per the Pension Fund accounts.

- A revised IAS19 letter from the Pension Fund actuary adjusted the net assets figure by £1.408m. This represents Hertsmere Borough Council's share of the up to date estimate of the net assets of the Pension Fund which results in a reduction of the pension liability and pension reserve. The key changes to the draft financial statements are illustrated in the next slide.

There are additional change to the related disclosures that we do not consider merit the attention of the Audit Committee in the Audit Results Report but have been reported separately by officers.

We would highlight to the audit committee that these differences arose as a result of more accurate information being made available to the pension fund, that related to the balance sheet date, and not as a result of an error or mistake in the drafting of the Council's financial statements.

There were no uncorrected misstatements.

# Audit Differences

Below is the comprehensive income and expenditure statement [CIES] and balance sheet adjusted for SAD items. We have outlined which balances are affected by these movements, and the variance by comparison to the prior year.

## Overview of the Council CIES

| CIES  | 2018<br>£k | SAD<br>Adjustment<br>£k | Adjusted<br>2018<br>£k | 2017<br>£k |
|---|------------|-------------------------|------------------------|------------|
| Re-measurement of the net defined pension asset | (3,163)    | (1,415)                 | (4,571)                | 5,370      |
| Other comprehensive income and expenditure      | (8,215)    | (1,408)                 | (9,623)                | (18,558)   |
| Total comprehensive income and expenditure      | (5,562)    | (1,408)                 | (6,970)                | (21,823)   |

### Key Highlights:

The actuary's estimate of the value of the Pension Fund's Net Assets as of 31 March 2018 is £67,017,000 less than the value of the Pensions Fund Net Assets as per the Hertfordshire Pension Fund accounts. A revised IAS19 letter from the Pension Fund actuary adjusted the net assets figure by £1.408m, increasing the re-measurement of the net defined pension asset by this amount. In addition there was a small adjustment of £7k to the pension asset

## Overview of the Council balance sheet

| Balance sheet               | 2018<br>£k | SAD<br>Adjustment<br>£k | Adjusted<br>2018<br>£k | 2017<br>£k |
|-----------------------------|------------|-------------------------|------------------------|------------|
| Other long-term liabilities | (36,917)   | 1,408                   | (35,509)               | (38,215)   |
| Pensions Reserve            | 36,917     | (1,408)                 | 35,509                 | 38,215     |
| Net Assets                  | 137,777    | 1,408                   | 139,185                | 132,215    |
| Total reserves              | (137,777)  | (1,408)                 | (139,185)              | (132,215)  |

### Key Highlights:

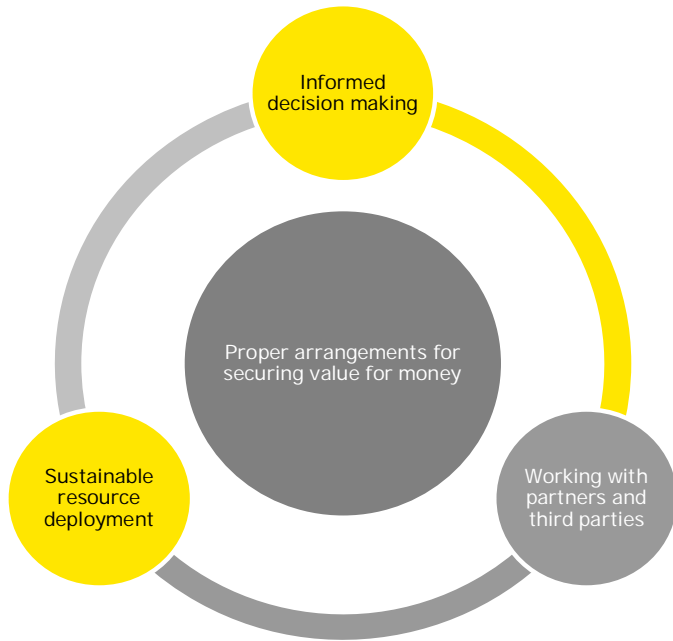
The actuary's estimate of the value of the Pension Fund's Net Assets as of 31 March 2018 is £67,017,000 less than the value of the Pensions Fund Net Assets as per the Hertfordshire Pension Fund accounts. A revised IAS19 letter from the Pension Fund actuary adjusted the net assets figure by £1.408m, reducing other long-term liabilities and the negative balance held in the Pensions Reserve.



05

# Value for Money Risks





## Background

We are required to consider whether the Authority 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 2017/18 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.

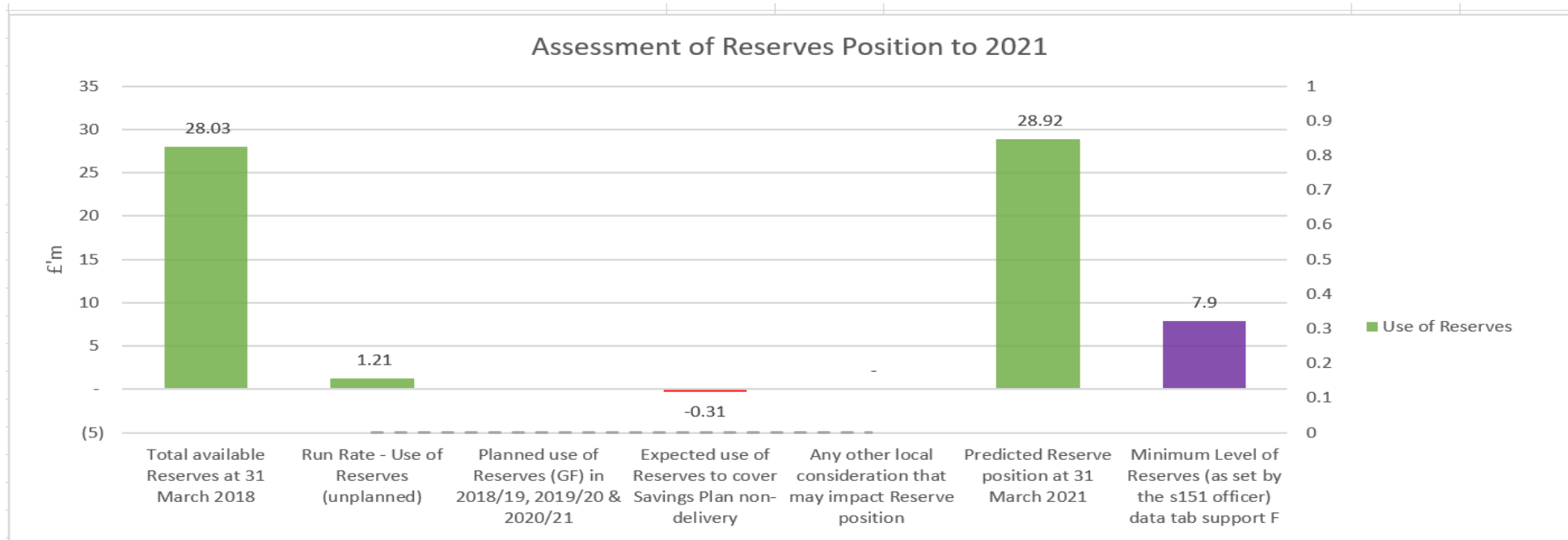
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## 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.





## Our Assessment

In our assessment we considered:

- The Authority's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Authority's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Authority's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Authority's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

As a result of our assessment, we are satisfied that the Authority's General Fund reserve balance at the 31 March 2021 will remain above the Authority's approved minimum level.



# 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 Statement of Accounts 2017/18 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 Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement (AGS) and can confirm it is consistent with other information from our audit of the financial statements. We recommended to officers that relevant supporting documents: the action plan arising from the Annual Governance Statement and the Local Code of Governance be brought together on the Council's web site with the (AGS) in order to provide a complete picture. SIAS reviewed the wording in the AGS following feedback from CIPFA relating to the 2016/17 Annual Governance Statement. We have no other matters to 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 are yet to complete our work in this area but the Council is below the threshold that triggers additional procedures.

### 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 Authority's financial reporting process. There are no other matters that we need to report



07

## Assessment of Control Environment



# Assessment of Control Environment

## 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.

### Member declarations

We reported last year that when undertaking our procedures on related party transactions we checked declarations of interest against information at Companies House and found some directorships had not been disclosed.

Once again this year in our testing, we identified a number of declarations where directorships had not been disclosed.

Whilst we are satisfied that there were no transactions between Hertsmeire Borough Council and the organisations concerned, we would again recommend that Members need to ensure that their declarations are complete and updated for changes. This is an important part of the process for the Council to identify related party transactions and protect itself from the implications of such transactions.



# 08 Data Analytics



# Use of Data Analytics in the Audit

## 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 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee expenses, 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.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. 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. The snapshot below is an update from our interim work and covers the period from November to March (hence timeline shows in brighter colour the final four months of the year).

### EY Helix - GLASS: Criteria

**Manual v System**

Manual (0.7%)  
System (99.3%)

**Account Type**

Assets, Equity, Liabilities, Expenses, Revenue

**Source**

Re-sort

**Account Class / GL Account**

Account Class

**Timeline**

Period

Colouring is based on Entry Date

**Journal Counter**

Values by Journal Count

Journal count based on selection:

# 30,438

Reset Selections

**User**

| PreparerID                  | Value  | Posting Pattern |
|-----------------------------|--------|-----------------|
| (Empty)                     | 29,114 |                 |
| TABLE_OWNER-ADMIN           | 1,077  |                 |
| Leslie Pollard-HB4 FINANCE  | 57     |                 |
| Sarah Peacefull-HB4 FINA... | 57     |                 |
| Mike Hatton-HB4 FINANCE     | 46     |                 |
| James Woodward-HB9 FIN...   | 36     |                 |
| Alex Wright-ADMIN_A         | 19     |                 |
| Jean Cole-HB3 FINANCE       | 16     |                 |
| Elena Sharp-HB9 - FINANC... | 13     |                 |
| Mina Moghaddami-HB4 FI...   | 3      |                 |

**Business Unit**

Account Pairing Selector

Numerical Filters

**Key Word Search**

Search in: JEDescription based on

or

First search word:

Second search word:

Third search word:

Fourth search word:

Fifth search word:

Reset Description Search





## Journal Entry Testing

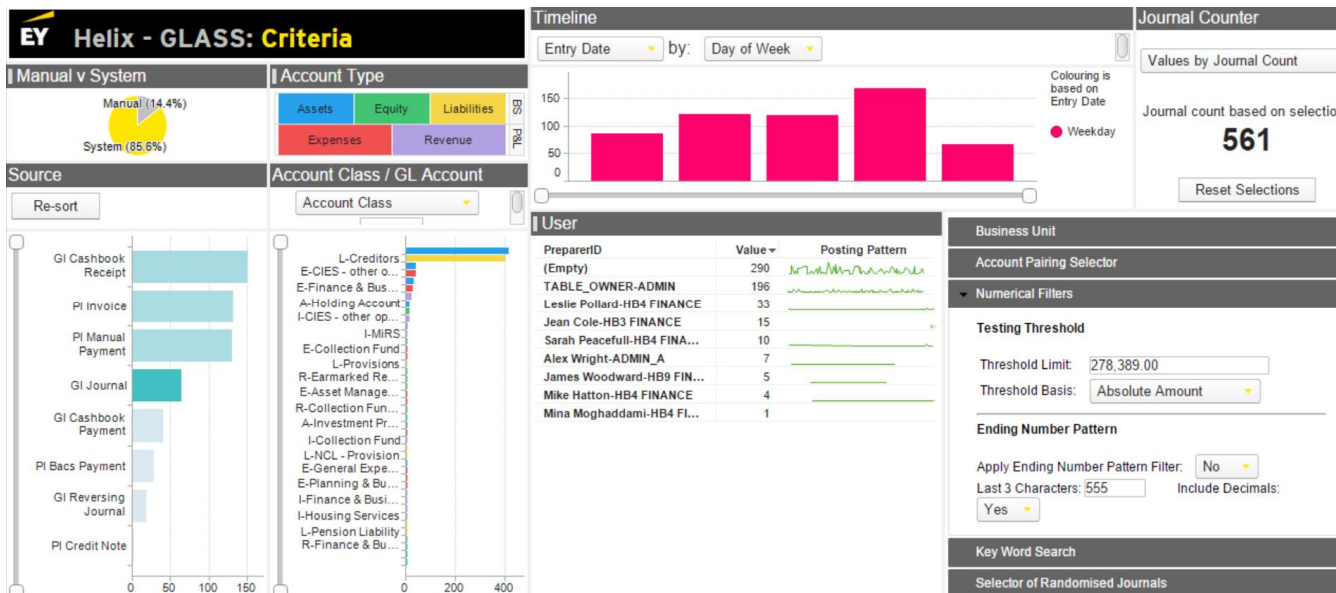
### What is the risk?

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 2018

### 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. The preceding slide showed the review for senior management posting journals and this slide shows if journals are posted outside of the core working week.

### 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.



# Data Analytics

## Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample. We checked the reasons for the spike in pay costs in May which was due to exit packages.

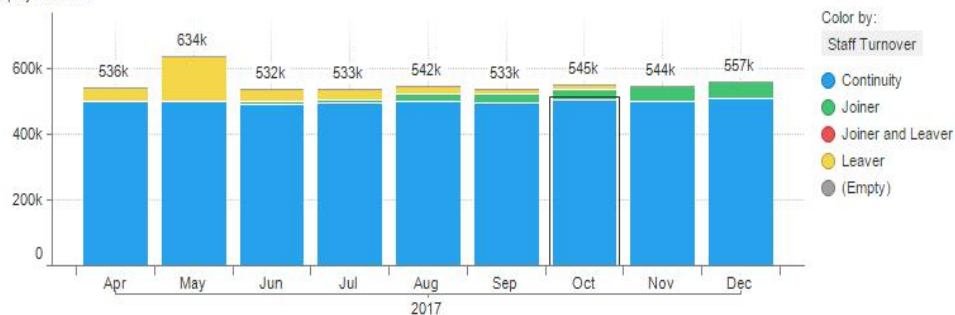
### EY Helix - Payroll Analyser: 4. Monthly Summary

Select a variable from the drop down list below to view the analysis for different payroll transaction types. Select individual months in chart 4.0 to obtain transaction level data for the selected month, this will appear in 4.2 payment data drilldown.

Select Variable: **Net pay** | Select Frequency: **Monthly** | Select Colour By: **Staff Turnover**

#### 4.0 Monthly Summary: Net pay by Posting Date

Net pay Amount

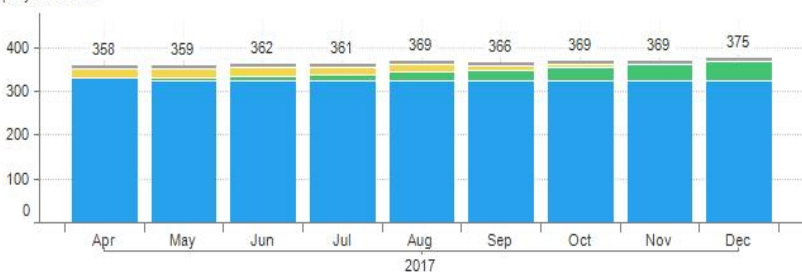


#### 4.1 Monthly Summary: Net pay

Please select from bar or line graph in 4.0 to limit data shown.

| Year        | Month | Total Net pay | Avg Per Transaction | % of Gross Pay | Nil Payments / Total | Monthly % Change |
|-------------|-------|---------------|---------------------|----------------|----------------------|------------------|
| 2017        | Apr   | 536,405.30    | 1,498.34            | 71.16 %        | 25/358               |                  |
|             | May   | 633,655.84    | 1,765.06            | 70.19 %        | 25/359               | 18.13 %          |
|             | Jun   | 531,573.34    | 1,468.43            | 71.30 %        | 26/362               | -16.11 %         |
|             | Jul   | 532,665.80    | 1,475.53            | 71.67 %        | 29/361               | 0.21 %           |
|             | Aug   | 542,428.52    | 1,466.02            | 71.46 %        | 16/370               | 1.83 %           |
|             | Sep   | 532,800.00    | 1,455.74            | 72.09 %        | 30/366               | -1.78 %          |
|             | Oct   | 545,308.55    | 1,477.80            | 71.80 %        | 28/369               | 2.35 %           |
|             | Nov   | 544,016.51    | 1,474.30            | 72.01 %        | 28/369               | -0.24 %          |
|             | Dec   | 556,836.38    | 1,484.90            | 71.93 %        | 15/375               | 2.36 %           |
| Grand total |       | 4,955,690.24  | 1,506.75            | 71.48 %        | 222/3289             | 0.00 %           |

Employee Count



#### 4.2 Payment Data Drilldown



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Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in [our Audit Planning Report dated 19 December 2017.

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 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 30 July 2018.

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 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

# 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 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code.

|                             | Final Fee<br>2017/18 | Planned Fee<br>2017/18 | Scale Fee<br>2016/17 | Final Fee<br>2016/17 |
|-----------------------------|----------------------|------------------------|----------------------|----------------------|
|                             | £                    | £                      | £                    | £                    |
| Total Audit Fee – Code work | TBC                  | 49,366                 | 49,366               | 56,347               |
| Non-audit work              | 0                    | 0                      | 0                    | 0                    |
| Total audit services        | TBC                  | £49,366                | £49,366              | £56,347              |

Note that the planned and scale fee figures for 2017/18 do not include any amount for the audit of the group accounts. The scale fee for 2016/17 was £49,366, the additional amount to cover the group accounts was £3,947. An additional amount of £3,034 was charged in 2016/17 in respect of the review of the valuations of specialist assets.

We are expecting some additional cost this year from the review of a valuation of a property asset by one of our EY Valuers. We will liaise with the Corporate Director on any addition to our fee. Any increase to the planned fee has to be approved by PSAA.






09

## Appendices

## Appendix A

# 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 the Audit Committee 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 submitted to 18 January 2018 Audit Committee   |
| 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 due to be submitted to 30 July 2018 Audit Committee   |

# Appendix A





|                         |   | 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 Hertsmere Borough 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<br>July 2018   |
| 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>  | Letter of representation – July 2018  |
| 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's responsibility.</li> </ul> | Audit Results Report<br>July 2018   |







# Appendix A

|                         |   |  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<br>July 2018  |
| Independence            | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>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<br>January 2018<br>and<br>Audit Results Report<br>July 2018  |

# Appendix A

|   |   |  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>   | At the time of drafting this report we have not received confirmations from Toronto Dominion Bank, Goldman Sachs or Bank of Scotland. We will need to conduct alternative procedures if these are not received by 30 <sup>th</sup> July. |
| 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/Annual Audit Letter   |




# Appendix A

|  |  |  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<br>July 2018  |
| 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<br>July 2018  |
| 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<br>July 2018  |
| 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<br>March 2018<br><br>Audit Results Report<br>July 2018   |

## Appendix B

# Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

| Item                                      | Actions to resolve  | Responsibility  |
|--|--|--|
| Review of work completed on property valuation   | Work has been completed and is in the review process   | Audit team   |
| Completion of work on housing costs using modules provided by the National Audit Office                                    | We have received information requested from officers and are completing our work.                      | Audit team   |
| Receipt of 3 outstanding investment confirmations  | EY audit team will pursue obtaining the confirmations but may need to consider alternative procedures  | Audit team   |
| Review of the component auditor reporting pack from the component auditor together with review of requested working papers | Pack received on 18 <sup>th</sup> July and is in the process of review                                 | Audit team   |
| Clearance of queries arising from review by Associate Partner and manager  | Ongoing review process   | Audit team   |
| Completion of subsequent events review   | Procedures due to be undertaken week commencing 23 July  | Audit team   |
| Completion of procedures required for whole of government accounts   | Submission of assurance statement to be undertaken   | Audit team   |
| Receipt of the signed management representation letter   | To be provided at the Audit Committee on 30 July   | Corporate Director/Chair of Audit Committee  |

## Appendix C

# Management representation letter

### Management Rep Letter

To be prepared on the Council's letterhead

*[Date]*

Ernst & Young  
Apex Plaza  
Forbury Road  
Reading  
RG1 1YE

Dear Sirs

Hertsmere Borough Council Management Letter of Representation 2017/18

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Hertsmere Borough Council ("the Group and Council") for the year ended 31 March 2018. 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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of Hertsmere Borough Council as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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.

# Management representation letter

## Management Rep Letter

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, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council 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 Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and for the Council and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have 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 2017/18 for the Group and Council 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 Group and 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 consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, 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 consolidated or 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 Group or 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.

# Management representation letter

## Management Rep Letter

### 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 consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council, and Executive committee (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: Council (18 July 2018) and Executive (25 July 2018).
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year 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 consolidated and council 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 Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.



# Management representation letter

## Management Rep Letter

### 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 consolidated and council 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 5.37 to the consolidated and council financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than as described in Note 5.5 to the consolidated and council financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

### F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

# Management representation letter

## Management Rep Letter

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Statement of Accounts.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.

### I. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

### J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to value land and buildings and to calculate the non domestic rates appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

## Management representation letter

### Management Rep Letter

#### K. Property valuation and Business Rates Appeals Provisions Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
3. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and council financial statements due to subsequent events.

#### L. Retirement benefits

1. 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,

\_\_\_\_\_  
(Corporate Director)

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

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