

## AGENDA ITEM NO. 2

Hertfordshire County  
Council  
Audit results report

Year ended 31 March 2017

Private and Confidential

11 September 2017



Dear Audit Committee Members

We have substantially completed our audit of Hertfordshire County Council for the year ended 31 March 2017.

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 03, before the statutory deadline of 30 September 2017. 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 look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Neil Harris

Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

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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 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, other members of the Authority and management of Hertfordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, other members of the Authority and management of Hertfordshire County 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, other members of the Authority and management of Hertfordshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

## Executive Summary



# Executive Summary

## Overview of the audit

### Scope and materiality

In our Audit Plan presented to the 1 March 2017 Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £17.1 million. We reassessed this using the actual year-end figures, which has increased this amount to £19.9 million. The threshold for reporting uncorrected audit differences has increased from £0.855 million to £0.998 million. The basis of our assessment of materiality has remained consistent with prior years at 1% of gross expenditure. The increase is primarily as a result of the large increase in losses on the disposal of non-current assets within Other Operating Expenditure.

### Status of the audit

We have substantially completed our audit of Hertfordshire County Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 03. However until work is complete, further amendments may arise:

- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission



## Executive Summary

### Executive summary (continued)

#### Status of the audit (continued)

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

#### Objections

We have received no objections to the 2016/17 accounts from members of the public.

#### Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. The error relates to expenditure treated as REFCUS but should be capital property, plant and equipment. This is an extrapolated error and as such we would not expect the client to amend.

We ask that the rationale as to why this is not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated projected unadjusted audit difference is £1.404 million. We agree with management's assessment that the impact is not material.

We have also identified audit differences which have been adjusted by management.

Details can be found in Section 4 Audit Differences.





## Executive Summary

### Executive summary (continued)

#### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Hertfordshire County 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.

#### 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. In our Audit Plan we identified one significant risk in relation to the Council's Financial Resilience and Sustainability and Transformation Plan.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Further details are set out in Section 5.



## Executive Summary

### Executive summary (continued)

#### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council and have no matter to report as a result of this work.

We are concluding on the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have no issues to report to date.

We have no other matters to report.

#### Control observations

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 and which is unknown to you.

#### Independence

Please refer to Appendix B for our update on Independence.







02

## Areas of Audit Focus



# Areas of Audit Focus

## Audit issues and approach:

### Revenue Recognition

#### What are our conclusions?


Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

#### What is the risk?

Risk of fraud in revenue recognition  
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this 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 manipulating expenditure recognition.

 In Audit Report

 Significant Risk

#### What did we do?

Our testing of journal entries to date has not identified adjustments which were outside of the normal course of business. All journals tested have an appropriate business rationale.

Our testing material revenue and expenditure streams, including accounting estimates did not identify any issues or evidence of management bias.

Our cut-off testing on income and expenditure received around period end to assess whether the recognition or deferral of this income and expenditure was appropriate.

We have not identified any issues in relation to completeness of revenue through substantive testing and cut-off.

Our review and testing of capital expenditure on property, plant and equipment confirmed it met the relevant requirements to be capitalised



## Areas of Audit Focus

### Audit issues and approach:

#### Management override


#### What are our conclusions?


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.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

#### What is the risk?

**Risk of management override**  
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 to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

 In Audit Report

 Significant Risk

#### What did we do?

Our testing of journal entries to date has not identified adjustments which were outside of the normal course of business. All journals tested have an appropriate business rationale.

The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the assumptions in these areas and found no indication of management bias in these estimates.

During the course of our audit we did not identify any significant unusual transactions. This includes our detailed review of the adjustments through the Movement in Reserves Statement.



## Areas of Audit Focus

### Audit issues and approach:

Other Financial Statement Risks	What did we do?
<p><b>Property Asset Valuation</b></p> <p>Valuation of property assets is a significant accounting estimate that has a material impact on the financial statements.</p>	<p>Assessed and placed reliance on property valuation specialists commissioned by the Council and the auditor.</p> <p>Assessed and used an independent valuer's market report to review and challenge the assumptions and judgements used by the Council's external valuer in valuing the Council's property.</p> <p>Tested the accounting entries made for revaluations, including assessing assumptions, asset use and valuation methods. There were no significant amendments in these areas.</p>
<p><b>Pension Liability</b></p> <p>The Local Authority Accounting Code of Practice and IAS 19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p>	<p>Assessed the conclusions drawn on the work of the actuary by the Consulting Actuary to the PSAA, PwC.</p> <p>Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.</p> <p>Assessed the reasonableness of the estimations and judgements used including assessing assumptions made by the Actuary. We have no significant matters to report.</p>



## Areas of Audit Focus

### Audit issues and approach:

#### Other Financial Statement Risks

#### What did we do?

##### Group Accounts

The Council set up two companies in September 2013:

- Hertfordshire Catering Ltd, which is wholly-owned subsidiary.
- Herts for Learning, of which 20% is owned by the Council and the remainder by schools.

The Council continues to assess these interests as quantitatively and qualitatively material to the group and therefore the Council will continue to consolidate the companies into the Council's group and therefore the Council will continue to consolidate the companies into the Council's group accounts as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).

There is a risk that the group financial statements do not meet the requirements as defined by the Code.

Reviewed the Council's assessment of all potential group entities against accounting standards IFRS10 and 11.

Reviewed and tested that the Council adopted and correctly applied accounting policies that comply with the requirements of the Code.

Reviewed that the consolidations of the companies' accounts have been undertaken correctly into the group accounts. Reviewed and tested all appropriate disclosures.

We have no significant matters to report.

##### Children's Services PFI Scheme

The Council entered into a PFI scheme in June 2007 for the design, finance and maintenance of seven new children's homes, a family assessment centre, a disability resource centre, a children's centre and the refurbishment of five family support centres, through a private sector operator, with a facility for 25 years. The outstanding liabilities to be paid to the contractors for capital expenditure as at 31 March 2016 were £16,185million.

It is a number of years since this PFI scheme was reviewed in detail by audit and therefore we believe additional work needs to be carried out to ensure the values and accounting disclosures associated with this PFI scheme remain accurate and in line with the original contract arrangements.

Our audit procedures included the construction of a parallel accounting model to assess whether the County's accounting model for the Children's Services PFI scheme was materially accurate. The parallel model confirmed no material differences in accounting for this project.

Our procedures did identify a difference in the output of the two models of £1.885m. This difference is likely to have arisen from the more detailed County accounting model, which correctly recognised the liability for each individual asset at the point it was completed, compared with the parallel model which assumes a single completion date.

We have no further matters to report.



## Areas of Audit Focus

### Audit issues and approach:

#### Other Financial Statement Risks

#### What did we do?

##### CIPFA Code Changes

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

##### Highways Network Assets deferral to 2017/18

CIPFA have issued an update to the 2016/17 Accounting Code. The removal of all references to the valuation and accounting requirements for the Highways Network Asset due to the deferral of its implementation announced in December 2016.

Reviewed the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code.

Reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.

Agreed the restated comparative figures back to the Council's segmental analysis and supporting working papers.

Had a technical review carried out which identified areas for change in disclosure and positioning of the Expenditure and Funding Analysis note within the financial statements. All of these amendments have been agreed with management.

We continued to consider the preparedness of the Council during 2016/17, no disclosure requirements were needed in the 2016/17 financial statements.





## 03 Audit Report





# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERTFORDSHIRE COUNTY COUNCIL

##### Opinion on the Authority and firefighters' pension fund financial statements

We have audited the financial statements and the firefighters' pension fund financial statements of Hertfordshire County Council for the year ended 31 March 2017 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, Authority and Group Statements of Accounting Policies, the related notes 1 to 49 of the Authority financial statements and the related notes 1 to 4 of the Group financial statements and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 6.

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 2016/17.

This report is made solely to the members of Hertfordshire County 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.

##### Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 14, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements and the firefighters pension fund 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Hertfordshire County Council and Group as at 31 March 2017 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 2016/17.

#### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with 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



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

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

#### Authority's responsibilities

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

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.

#### 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 2016, as to whether the Hertfordshire County 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 Hertfordshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 Hertfordshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

#### Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in November 2016, we are satisfied that, in all significant respects, Hertfordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

#### Certificate

We certify that we have completed the audit of the accounts of Hertfordshire County 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.

#### Or

#### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Neil Harris (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

Date:

The maintenance and integrity of the Hertfordshire County 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.



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## Audit Differences



## Audit Differences

### Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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 have included all known uncorrected amounts greater than £0.998m relating to Hertfordshire County Council in our summary of misstatements table on page 22.

We highlight the following corrected misstatements in the financial statements or disclosures identified during the audit.

These have been corrected by management:

- Vehicles, Plant, Furniture and Equipment not written off on Academy/Foundation School conversion - cost £1.952m, accumulation depreciation £1.217m and impact on reserves of £0.735m
- Correcting the year-end balance for Accumulating Compensated Absences £2.164m
- Reversal of LEP Long Term Debtor £1.276m to be accounted for as a grant
- A number of disclosure amendments agreed with management



# Audit Differences

## Audit differences (continued)

### Summary of unadjusted differences

We highlight the following misstatements in the financial statements and/or disclosures which were not corrected by management. We ask you to give a rationale as to why they have not been corrected. This should be considered and approved by the Audit Committee and included in the Letter of Representation:

Account 31 March 2017		Comprehensive income and expenditure statement (Increase)/Decrease		Balance sheet (Decrease)/Increase
<p>Expenditure treated as REFCUS but should be capital PPE – Projected Error Impact on the CIES and Property, Plant and Equipment Cost. The impact would also be on the Capital Adjustment Account (CAA) and General Fund (MiRS).</p> <p>The projected error has been calculated following the identification of expenditure treated as REFCUS but should be capital additions in property, plant and equipment. The errors in the testing related to 3 items totalling £4,801.61. Calculated on a statistical basis over the population, this creates a projected error of £1.4 million. In discussing this error with management it was determined that the cost of undertaking further testing outweighed the benefit. As a result, the Council has undertaken a review of the balance to determine the actual size of the error and will revise working practices in 2017/18 to ensure this does not re-occur.</p>		(1,404,000)		1,404,000





05

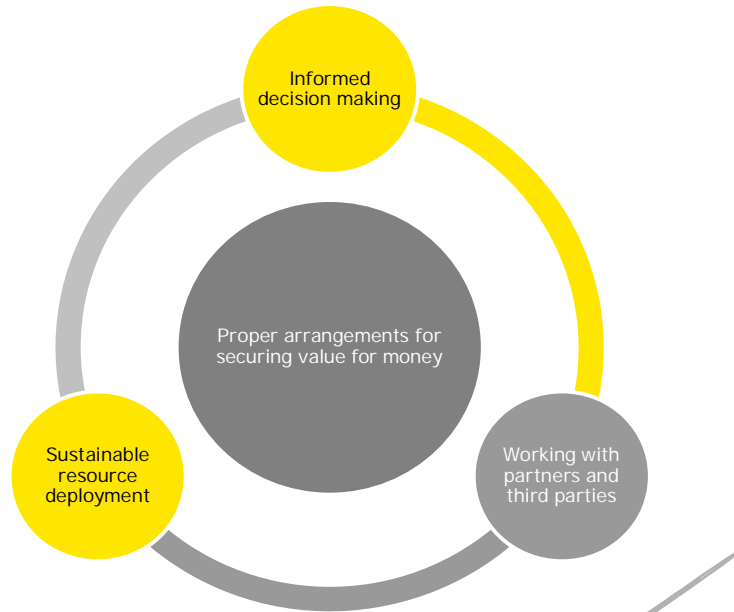
## Value for Money





## Value for Money

### Value for Money



#### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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 use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

#### Overall conclusion

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk in our Audit Plan.

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



# Value for Money

## VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risk areas in our Audit Plan.

### What is the significant VFM risk?

### What arrangements did this affect?

### What are our findings?

The impact of continuing reductions in funding from central government is particularly challenging for the Council. With restrictions on annual Council Tax increases, the Council’s medium-term financial strategy (MTFS) identifies the need to identify and deliver significant savings from 2017/18 and future years.

Deploying resources in a sustainable manner  
Working with partners and other third parties

There is a robust budget setting process in place with challenge built into the process from officers and members. The 2016/17 budget was met with an underspend.

Assumptions built into the budget are based on best information available and the Council has articulated within its budget the risks associated with upcoming changes to government policy and the economic climate. There is evidence throughout the MTFS that the Council has considered the impact of various scenarios and the impact these will have on budget planning.

The Council has worked with partners to deliver efficiencies and savings and continues to do so with some significant arrangements in place.

Overall we recognise there continues to be challenges faced by the Council as they seek to identify and implement savings.



# Value for Money

financial

## What is the significant VFM risk?

Sustainability and Transformation Plans (STPs) give local NHS organisations and councils the opportunity to work together to improve the way health and social care is designed and delivered.

The Hertfordshire and west Essex publication 'A Healthier Future' brings together the challenges and opportunities that face NHS and care services in Hertfordshire and west Essex as they work together to improve health and wellbeing within the funds available.

In Hertfordshire and west Essex £3.1bn a year is spent on health and social care. The position is increasingly stretched with a potential funding gap of £550 million a year by 2021 unless services can act together.

While the Council has a history of being well managed and aware of issues impacting the County area as a whole, we consider there is a significant risk in relation to the Council's ability to deal with the challenging health and social care environment and deliver the savings required.

## What arrangements did this affect?

Deploying resources in a sustainable manner  
Working with partners and other third parties

## What are our findings?

The Council acknowledges that it will need to robustly challenge assumptions and savings built into the budget and medium term financial plans to ensure these continue to be fit for purpose in the light of uncertainties over future government grant funding and the local government finance system. The Council sets out the details of the key uncertainties it faces in its Medium Term Financial Strategy. Our knowledge of Council arrangements, and discussions with senior management, have shown that the Council keeps its assumptions under review and will make changes as required in response to the rapidly changing environment in which it is operating.

The Council has engaged proactively in the STP process and is working closely with partners from high level planning to a more detailed delivery model

Working groups are in place to ensure the delivery of the plan. The Council acknowledges that this is a complex challenging area that is requiring a lot of resource to contribute to the financial sustainability of the Council in the context of the health economy.

Overall, the Council has been proactive in its engagement with the STP, working with partners, in considering and reflecting the service pressure and spending risks from health and social care in the MTFS. We recognise there remain a number of challenges, particularly how the Council's assumptions align in with those of the STP, now and in the future.





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## Other reporting issues





## 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 2016/17 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 2016/17 and published with the financial statements was consistent with the audited financial statements. Any minor amendments required have been made.

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.

### 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 currently concluding our work in this area and will report any matters arising to the Audit Committee.



## Other reporting issues

# Other reporting issues

### 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 Council 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 Council, 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 Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have no matters to report.





07

## Assessment of Control Environment



# Assessment of Control Environment

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## Assessment of control environment

### Financial controls

It is the responsibility of the Council 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 Council 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.

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.



# Assessment of Control Environment

## IT controls

As set out in our Audit Plan we sought to obtain greater assurance over the IT controls and processes particularly around the SAP system through our IT risk assurance specialists.

Information Technology General Controls ('ITGCs') will often contribute indirectly to the achievement of many or all of the financial statement assertions. This is because effective ITGCs help to ensure the continued and effective operation of application controls and automated accounting procedures that depend on computer processes. ITGCs are also important when manual controls depend on application-generated in business processes.

The following procedures were performed:

- IT Dependent controls and key reports/Information produced by the Entity (IPE) are identified which support the significant business processes;
- The application controls, IPEs and business processes identified are then mapped to information systems; and
- Where it is determined that ITGC testing could contribute to audit comfort, key IT controls are then identified and the design and operating effectiveness of those controls validated by independent walkthroughs and operating effectiveness testing.

Based on the above and our initial planning discussions, our scope of the IT audit for this year was restricted to performing control walkthroughs for the SAP system and related infrastructure.

There were a small number of recommendations to follow up as part of this work. The recommendations mainly related to privileged or developer's access to the system. Management responded to these recommendations with all actions to be taken by 31 July 2017. The recommendations and responses have been set out in a separate report agreed with Management.

We will re-engage our IT risk assurance specialists to follow up on this during the last quarter of 2017 with the objective to obtain ITGCs for the 2017/18 financial year.

None of these recommendations impact on the audit of financial statements audit for the current year.





## 08 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 done this by:

		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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	1 March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> </ul>	11 September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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>	11 September 2017 Audit Results Report No conditions or events were identified, either individually or together to raise any doubt about Hertfordshire County 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>▶ Significant corrected misstatements, in writing</li> </ul>	11 September 2017 Audit Results Report



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	11 September 2017 Audit Results Report We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, where 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/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	11 September 2017 Audit Results Report We have no matters to report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	11 September 2017 Audit Results Report We have no matters to report
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	11 September 2017 Audit Results Report We have no matters to report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	11 September 2017 Audit Results Report We have received all requested confirmations







## Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off”</li> <li>Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee.</li> </ul>	11 September 2017 Audit Results Report 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>	11 September 2017 Audit Results Report
Group Audits (if applicable)	<ul style="list-style-type: none"> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>An overview of the group audit team’s planned involvement in the component auditors’ work on the financial information of significant components</li> <li>Instances where the group audit team’s evaluation of a component auditor’s work of gave rise to a concern about its quality Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted</li> <li>Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	1 March 2017 Audit Plan  11 September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY’s objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <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 on the firm’s general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	1 March 2017 Audit Plan  11 September 2017 Audit Results Report





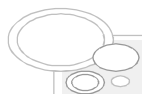
## Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	1 March 2017 Audit Plan  11 September 2017 Audit Results Report



## Appendix B

# Independence



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 1 March 2017 complied with the APB 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 11 September 2017

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on Teacher's Pensions return. We have adopted the necessary safeguards in our completion of this work. We have yet to issue an engagement letter for the 2016/17 Teacher's Pensions Return due to clarification being sought on this year's Teacher's Pensions Return guidance by ICAEW.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017. We confirm that we have undertaken non-audit work outside the PSAA Code requirements. This relates to the audit of the 2015/16 Teacher's Pensions return which was undertaken during the 2016/17 financial year. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee – code work	142,067	142,067	142,067	142,067
Total Non-audit work*	TBC	13,000	N/A	13,000

\*2016/17 fee relates to the work completed on the 2015/16 Teachers Pension return as the work is completed in the financial year following preparation of the return (2015/16 relates to 2014/15 completed return).





## Appendix C

# Accounting and regulatory update

## Accounting update

The following table provides a high level summary of new accounting standards and interpretations that have the potential to have the most impact on you:

Name	Summary of key measures 	Impact on Hertfordshire County Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured</li> <li>• How the impairment of financial assets are calculated</li> <li>• Financial hedge accounting</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>• Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>• Reclassify existing financial instrument assets</li> <li>• Remeasure and recalculate potential impairments of those assets; and</li> <li>• Prepare additional disclosure notes for material items</li> </ul> <p>Although any changes required won't be confirmed until 2018/19 Code is released, the Council has begun initial analysis of the potential impact, including dialogue with our treasury advisors, Arlingclose.</p>



## Appendix C

<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"><li>• Leases;</li><li>• Financial instruments;</li><li>• Insurance contracts; and</li><li>• for local authorities; Council Tax and NDR income.</li></ul> <p>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.</p> <ul style="list-style-type: none"><li>• There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</li></ul>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"><li>• Disaggregate revenue into appropriate categories</li><li>• Identify relevant performance obligations and allocate income to each</li><li>• Summarise significant judgements</li></ul> <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is in a good position to implement these changes when required from 2019/20, having already implemented a system for recording Finance Leases. A detailed exercise will be undertaken to identify further leases, once the 2019/20 Code has been finalised and further guidance issued in this area.</p>




## Appendix C

# Accounting and regulatory update (continued)

## Regulatory update

The following table provides a high level summary of those that could have the most significant impact on you:



Name	Summary of key measures 	Impact on Hertfordshire County Council
<i>Policing and Crime Act 2017</i>	<p>The key measures summarised here are those that are likely to have implications for the audit of the financial statements and the VFM conclusion:</p> <ul style="list-style-type: none"> <li>• Increase in emergency services collaboration between police bodies, ambulance and fire and rescue services</li> <li>• Provision for Police and Crime Commissioner (PCC) to act as the Fire and Rescue Authority through either a governance or single employer model subject to an approved business case and public, stakeholder consultation.</li> </ul>	<ul style="list-style-type: none"> <li>• Powers introduced to allow increased collaboration between emergency services</li> <li>• Powers that allow the PCC to act as Fire and Rescue Authority with a variety of governance and accounting structures resulting.</li> <li>• The Police and Crime Commissioner for Hertfordshire has consulted on a business case to create a governance model and become the corporate sole for the Fire and Rescue Authority. Hertfordshire County Council are and remain a vital and significant stakeholder in any governance changes for the Fire and Rescue Service.</li> <li>• We have considered the arrangements the County Council has put in place to date to contribute to the PCCs business case development and in responding to the consultation exercise. We are satisfied that the Council has taken all the appropriate steps relevant to its role and responsibilities at this stage.</li> <li>• We understand that the business case is now subject to an independent evaluation and determination by the Home Office which will take place in the autumn of 2017.</li> <li>• In the event that there is approval for a governance change, we will use our 2017-2018 Value for Money conclusion to examine carefully the County Council's arrangements to secure a smooth and effective transition, as well as the completeness and adequacy for strategy, financial management, reporting and risk management purposes of judgements made on the disaggregation of assets, liabilities, income, expenditure, contractual obligations, oversight and scrutiny.</li> </ul>



## Appendix C

# Accounting and regulatory update (continued)

## Progress report on implementation of new standards and regulations

Name	Summary of key measures	Impact on Hertfordshire County Council  
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<ul style="list-style-type: none"> <li>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</li> </ul>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has taken some steps in 2016/17. For example it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>Issued a thought piece on early closedown</li> <li>As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales</li> <li>Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017</li> </ul> <p>Locally we have had discussions through the year on the Council's proposals to bring forward the closedown timetable and on potential areas for early work.</p> <p>We have agreed with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> <li>Streamlining the Statement of Accounts removing all non-material disclosure notes</li> <li>Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations</li> <li>Providing training to departmental finance staff regarding the requirements and implications of earlier closedown</li> <li>Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure</li> <li>Establishing and agreeing working materiality amounts with the auditors</li> </ul>



## Appendix D

# Management representation letter

### Management Representation Letter

[To be prepared on the entity's letterhead]

[Date]

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Hertfordshire County Council ("the Group and Council") for the year ended 31 March 2017. 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 Hertfordshire County Council as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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.

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 the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
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 2016/17 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.





## Appendix D

# Management representation letter

### Management Representation Letter

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 2016/17 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of an unadjusted audit difference of £1.4m, relating to capital expenditure incorrectly treated as REFCUS, identified and calculated by you during the current audit and pertaining to the latest period presented, are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected this difference identified and brought to our attention by the auditor because it results from a projected error and not an actual error that can reasonably be amended within the financial statements.

#### B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or council financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or council financial statements or otherwise affect the financial reporting of the Group or Council.

#### C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.



## Appendix D

# Management representation letter

### Management Rep Letter

#### D. 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, Cabinet and committees Audit 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: 11 September 2017.
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.



## Appendix D

# Management representation letter

### Management Rep Letter

#### E. 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 42** to the consolidated and council financial statements all guarantees that we have given to third parties.

#### F. Subsequent Events

1. 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.

#### G. 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.

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

1. We agree with the findings of the specialists that we engaged to evaluate the values of the Group and Council's land and buildings and surplus assets 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.



## Appendix D

# Management representation letter

### Management Rep Letter

#### I. Estimates -Property Valuations

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate.
2. We confirm that the significant assumptions used in making the property valuations appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

#### J. 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.

#### K. Going Concern

1. We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action and the feasibility of those plans.



## Appendix D

# Management representation letter

### Management Rep Letter

#### L. Expenditure Funding Analysis

1. That you have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.

2. You confirm that the financial statements reflect the operating segments reported internally to the Council.

*Yours faithfully,*

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Director of Resources

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Chair of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

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ED None

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