

**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**

**MONDAY 11 SEPTEMBER 2017 AT 10.00 AM**

**RESPONSE TO THE AUDIT RESULTS REPORT – HERTFORDSHIRE COUNTY COUNCIL (INCLUDING FIRE FIGHTERS' PENSION FUND) FINANCIAL STATEMENTS 2016/17**

*Report of the Director of Resources*

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Executive Member: David Williams, Resources, Property & the Economy

**1. Purpose of the Report**

- 1.1 To provide the Committee with a response to Ernst & Young's (EY's) Audit Results Report (ARR), including the draft Letter of Representation.

**2. Summary**

- 2.1 The council's external auditors have completed their audit and issued an Audit Results Report (item 2 on this agenda). This report provides the officers' response, together with a draft of the letter of representation requested by the auditors.

**3. Recommendations**

- 3.1 The Committee is invited to note and comment upon this report.
- 3.2 The Committee is invited to discuss and approve the Letter of Representation.

**4. Background**

- 4.1 The Council's external auditors, EY, have issued an Audit Results Report following the conclusion of their audit of the draft 2016/17 accounts. This summarises the findings from the 2016/17 audit, detailing any errors to be corrected and issues arising. As part of their audit, the auditors also request certain representations from the Council before they issue their final audit opinion.

**5. Response to the Audit Results Report**

- 5.1 EY expect to issue an unqualified opinion on the 2016/17 annual report and accounts, and to conclude that the Council has made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources (ARR p7 Executive Summary).
- 5.2 There are no recommendations arising from the report, and officer responses to the small number of issues raised are set out below. We are pleased to note the assurances given on the financial statements and the controls in the Council's

underlying financial processes. This year's audit work included a more detailed review of IT controls and processes: a small number of recommendations was identified, and in response controls have been reviewed and strengthened.

5.3 We are also pleased to note the auditor's assurance on their significant audit risk areas as set out in pages 10 – 14:

- Revenue Recognition, correctly calculating and presenting income and expenditure;
- Risk of management override – testing shows no evidence that accounts have been manipulated, inappropriate judgements applied or controls overridden;
- Property asset valuations and Pensions liabilities have been prepared with appropriate professional judgement and correctly accounted for;
- Group accounts have been correctly reported and consolidated;
- Changes to the CIPFA Code of Practice for Local Authority accounting, including the introduction of the new Expenditure & Funding Analysis, have been correctly applied;
- New accounting arrangements for the Better Care Fund (p4); management override risk (p4) and fraud in revenue recognition (p5).

We will continue to ensure that the robust procedures put in place in these areas are maintained in 2017/18 and future years.

5.4 We are also pleased to report that the draft accounts were successfully completed by 31 May, in a 'dry run' exercise anticipating the shorter timescales required for the 2017/18 year end. Next year the draft accounts will need to be provided to auditors by 31 May, and the audit completed and accounts approved by Audit Committee by 31 July.

5.5 As in previous years, officers are undertaking a 'lessons learned' exercise to identify ways in which accounting processes can be further improved, including ensuring we continue to deliver to the shortened timescales. They are also working with EY to agree an audit methodology and work plan that will meet the requirement to complete the 2017/18 audit by the end of July.

5.6 A small number of numerical differences were identified: officers have agreed and adjusted these, together with some minor adjustments to the text of disclosure notes. Further detail of these adjustments is given in item 4 on this agenda.

## **6. Letter of Representation**

6.1 Appendix D on page 43 of EY's Annual Results Report sets out the requirement for a Letter of Representation, which is to be signed by the Chair of the Audit Committee and the Chief Finance Officer. This letter provides the auditor with confirmation in relation to a number of matters, including assurances on the Council's financial policies and procedures, and the completeness and accuracy of information made available.

6.2 The Letter of Representation also confirms that we have not adjusted for the reported error on capital spend shown as REFCUS (Revenue Expenditure Financed

as Capital Under Statute – typically where we have incurred capital spend on a third party's assets). Sampling identified misclassified expenditure of £4,801.61 which if applied across the population would give an extrapolated error of £1.4m. As this is an estimate, it cannot reasonably be processed as an actual adjustment in the accounts.

- 6.3 A draft letter is attached at Appendix A to this report, for members to review and authorise so that the Auditor can then issue his opinion on the accounts.

## APPENDIX A

*11 September 2017*

Mr N Harris  
Director  
Ernst & Young LLP  
400 Capability Green  
Luton LU1 3LU

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.
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. Please see Appendix 1 for details of this item.

## **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.

## **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 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.

#### **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.

#### **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.

**L. Expenditure Funding Analysis**

1. We 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. We confirm that the financial statements reflect the operating segments reported internally to the Council.

*Yours faithfully,*

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Director of Resources

I confirm that this letter has been discussed and agreed at the Audit Committee on 11 September 2017

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Chair of the Audit Committee

Appendix 1: Details of unadjusted error, extrapolated difference on capital spend classified as REFCUS

	Assets current £000	Assets non- current £000	Liabilities current £000	Liabilities non-current £000	Income £000	Expenses £000
	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period	Debit/ (Credit) Current period
<b>Uncorrected misstatements</b>						
Projected differences:						
Adjustment to decrease the amount of capital spend treated as REFCUS, and increase capital assets.						
Cr Comprehensive Income and Expenditure Statement						(1,404)
Dr Fixed Assets- Note 12		1,404				
Cr Capital Adjustment Account - Note 24				(1404)		
Dr Movement in Reserves Statement						1,404