



Havant Borough Council
Audit results report

Year ended 31 March 2017

Private and Confidential

26th September 2017



Dear Governance and Audit Committee Members

We have substantially completed our audit of Havant Borough 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 3 – Audit Report, 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 Governance and 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

Andrew Brittain

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 via the PSAA website (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 September 2015)" 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 Governance and Audit Committee, other members of the Authority and management of Havant Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance and Audit Committee, other members of the Authority and management of Havant 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 Governance and Audit Committee, other members of the Authority and management of Havant Borough 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 21 June 2017 Governance and 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 £1,334,660. We reassessed this using the actual year-end figure, which has decreased this amount to £1,315,760. The threshold for reporting uncorrected audit differences has decreased from £66,000 to £65,788. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

Status of the audit

We have substantially completed our audit of Havant Borough 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 Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Completion of the group accounts procedures including receipt of component auditors work
- Segmental reporting
- Net cost of services - Income testing
- Collection fund - National Non Domestic Rate (NNDR) income reconciliation
- Useable and unusable reserves testing
- Clearance of remaining audit queries
- Review of the final version of the financial statements
- Completion of subsequent events review
- Final Director and Manager review of the completed audit work
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

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



Executive summary (continued)

Audit differences

We have identified a £225,000 balancing figure on the notes supporting the Cash Flow Statement. We ask for additional disclosure to be provided in the note to support this figure, or a rationale for not providing the disclosure, to be agreed by the Governance & Audit Committee and included in the Letter of Representation. The Council's management have assessed that this is not material and would not add any value to the reader of the Accounts and we agree with this assessment. We have also identified one audit difference with an aggregated impact of £940,583 to the Comprehensive Income and Expenditure Statement. In addition, we identified a small number of misclassification and disclosure differences that have been corrected by management. Further information on these can be found in Section 4 Audit Differences on page 20 of this report.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Havant 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 Governance and Audit Committee.



Executive Summary

Executive summary (continued)

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 the significant risks in respect of:

- Financial resilience; and
- Partnership working.

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 have no matters to report as a result of this work.

We are currently concluding our work required by the National Audit Office (NAO) on the Whole of Government Accounts and anticipate making our submission on the same date that we sign our audit report. We will report any matters arising to the Governance, Audit and Scrutiny Committee.

We have no other matters to report.



Executive Summary

Executive summary (continued)

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.

However, during the audit we have made observations and improvement recommendations for management's financial processes and controls. See section 7.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to draw to your attention.



02 Areas of Audit Focus





Areas of Audit Focus

Audit issues and approach: Significant risks

Management override

What are our conclusions?

From our work completed to date:

- 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 Authority's normal course of business.

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias:
 - We performed sample testing on the existence and valuation of prepayments, the completeness and valuation of accruals and completeness of provisions;
 - We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised; and
- We evaluated the business rationale for any significant unusual transactions.



Areas of Audit Focus

Audit issues and approach: Significant risks

Joint venture with Norse SE

What are our conclusions?

We experienced a number of difficulties and delays in obtaining the information both to contact the group auditor and in obtaining a response to our group instructions. This has delayed the progress of the audit in this area and we received the final report from the component auditor on 13th September.

We will update the Committee as soon as our work in this area is completed.

What is the risk?

In April 2016 the Council entered into partnership with Norse Commercial Services and developed a Joint Venture Company called Norse South East. Norse South East have been providing operational Services since April 2016 dealing with refuse and recycling collections, street cleaning, grounds maintenance and beach management. The Council are currently considering how to account for the Joint Venture Company within the 2016/17 financial statements. The Council have yet to receive information requested from Norse SE and there is a risk that if timely information is not available from the Joint Venture then the consolidation may be inaccurate or incomplete.

What did we do?

- We reviewed the Council's proposed accounting treatment for the joint venture company to ensure that it complied with accounting standards and the Code
- We reviewed the Council's arrangements for checking accuracy and completeness of Norse SE's financial statements
- We obtained the consolidation entries from the Council and re-performed the consolidation process to check accuracy. In addition, we assessed the reasonableness of the consolidation entries in line with group accounting guidance per the Code.
- We reviewed the group accounts and the disclosures made against CIPFA requirements to identify any matters of non-compliance.



Areas of Audit Focus

Audit issues and approach: Other financial statement risks

Financial statements presentation – Expenditure and Funding Analysis & Comprehensive Income & Expenditure Statement

What are our conclusions?

The work we have completed to date has found that:

- the disclosures were in line with the CIPFA Code
- the restated comparative figures agreed to Council's segmental analysis and supporting working papers with no issues noted

What is the risk?

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 (Service Reporting Code of Practice which previously established 'proper practice' with regard to consistent financial reporting below the Statement of Accounts level). 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 which the reporting of the operating segments of the Council in the disclosures accompanying its financial statements.

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.

What did we do?

- We reviewed the expenditure and funding analysis, Comprehensive Income and Expenditure Statement (CIES) and new notes to ensure disclosures are in line with the code;
- We 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; and
- We agreed restated comparative figures back to the Council's segmental analysis and supporting working papers.



Areas of Audit Focus

Audit issues and approach: Other financial statement risks

Capacity of the Finance Team

What are our conclusions?

The Council achieved early closure for 16/17 with draft statements were completed on 8th June, 3 weeks earlier than in the previous year. This is a good achievement as there has been decreased capacity in the finance team due to due diligence and preparation work for 5 Councils contract. However the accuracy of the financial statements and the supporting working papers was not as consistent in prior years with more minor errors identified. We also noted that officers due to decreased capacity officers were not able to respond as promptly as in the past to minor queries with working papers and additional requests. In addition, the Council's current Interim Head of Finance is the fourth officer to fill the role in 18 months and inevitably this has an impact on the ability of the team to respond to some queries.

What is the risk?

As the Council continues the implementation of the new corporate services contract there remains an increased risk that finance staff may leave the Council. This could result in the Council having insufficient resource to deliver the financial statements in line with the agreed audit timetable, cause delays in responding to audit queries and could impact upon the quality of financial information presented for audit. Additionally, as the Council is working towards a faster close process in anticipation of next year's requirement for the financial statements to be audited by the end of July 2018, this increases the pressure on the finance team and could give rise to the same risks.

What did we do?

- We monitored the quality and accuracy of the financial statements and supporting working papers that were presented for audit;
- We held regular discussions with key officers to ensure that any delays are communicated at an early stage; and
- We identified opportunities to bring our work forward.



Areas of Audit Focus

Audit issues and approach: Reliance on experts

Reliance on experts

Reliance on experts highlighted in the Audit Plan

We identified two areas in our Audit Plan where we place reliance on experts.

In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We have also considered the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. As part of this work we have performed the following procedures:

- ▶ Analysed source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assessed the reasonableness of the assumptions and methods used;
- ▶ Considered the appropriateness of the timing of when the specialist carried out the work;
- ▶ Assessed whether the substance of the specialist's findings are properly reflected in the financial statements.

We set out our findings in relation to the two specialists we have relied on below:

Pension disclosures

We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: Hymans Robertson LLP and Aon Hewitt. EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.

Property valuations

We have assessed and are satisfied with the competency and objectivity of the Council's internal valuer and the Council's external valuers, Vail Williams and Bidwells.

We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuers in relation to the Council's property, focusing in particular on specialist assets which are valued on a depreciated replacement costs basis. Our work in this area is largely concluded and, subject to final review, we have not identified any issues that we need to report to you. We will provide an update on progress and any findings at the Governance and Audit Committee meeting.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAVANT BOROUGH COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of Havant Borough 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,
- Notes 1 to 42 to the Council Accounts and the Expenditure and Funding Analysis,
- Collection Fund and the related notes 1 to 3

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 Havant 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.

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer Responsibilities set out on pages 19-20, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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.

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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

made by the Section 151 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 Havant Borough Council 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.

Conclusion on Havant Borough 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.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, Havant Borough 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 Havant 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.

Andrew Brittain (senior statutory auditor)

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

Southampton

14 September 2017

The maintenance and integrity of the Havant 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.



04

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 amounts greater than £986,820 relating to Havant Borough Council in our summary of misstatements table below.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

- £2.989 million presentational adjustment to the 2015/16 comparators on the Comprehensive Income and Expenditure Statement;
- £940,583 adjustment to the Comprehensive Income and Expenditure Statement relating to an over accrual of Community Infrastructure Levy debtors;

There were also a number of minor misclassification and disclosure amendments to the draft financial statements.

We identified one uncorrected mis-statement which management has chosen not to adjust. We ask you to correct this uncorrected misstatement or give a rationale as to why it has not been corrected. This should be considered and approved by the Governance and Audit Committee and included in the Letter of Representation.

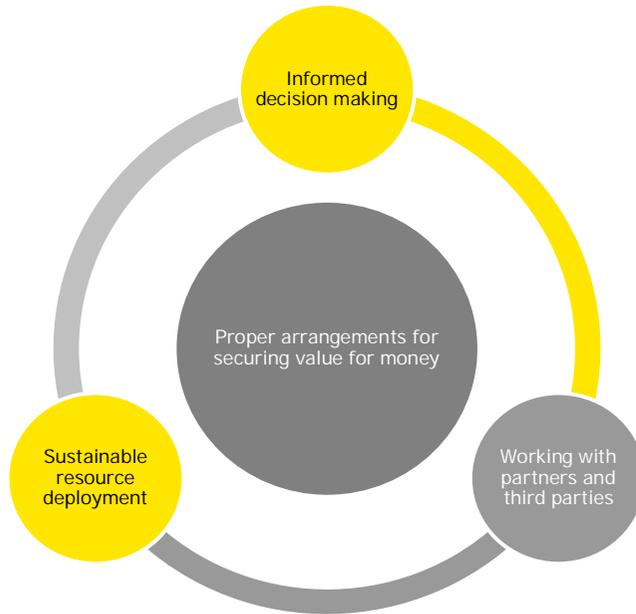
- Note 24 – Net cash flow from operating activities – includes 'Other non-cash movements' of £225,000 which has been used to balance the cash flow and is an unsupported balancing item only. We also reported this in the 2015/16 Audit Results Report when the amount was £170,000. We asked for additional disclosure to be provided in the note to support this figure, or a rationale for not providing the disclosure, to be agreed by the Governance and Audit Committee and included in the Letter of Representation. The Council's management have assessed that this is not material and would not add any value to the reader of the Accounts and we agree with this assessment.



05 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 three significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention.

We therefore expect having 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 risks areas in our Audit Plan.

| What is the significant VFM risk? | What arrangements did this affect? | What are our findings? |
|--|--|--|
| <p>Financial Resilience Like other local government bodies the Council continues to face financial challenges over the medium term, however the 2017/18 budget and medium term financial strategy show that the Council plans to move to a surplus position in 2019/20 with a view to building up reserves. The Council continues to seek alternative solutions to ensure that local services can be maintained and supported in the future, in line with local need. For example, through the 6 Districts Partnership and the Joint Venture with Norse SE.</p> <p>As part of the approach to increase their financial resilience, the Council is considering embarking on a programme of borrowing to invest, following a model adopted by another local authority, to build up an investment property portfolio. Previously the Council’s property investments have been financed from cash reserves and there is a risk that undertaking a programme of borrowing may expose the Council to increased financial risks if the assumptions and investment decisions are not appropriate.</p> | <p>Taking informed decisions Deploying resources in a sustainable manner Working with partners and other third parties</p> | <p>We have reviewed the PSAA’s value for money profile tool and did not identify any areas of concern.</p> <p>We have reviewed the Council’s out-turn for 16/17 to assess the reasonableness of the assumptions and reviewed the assumptions in the 17/18 budget and Medium Term Financial Strategy.</p> <p>The Council achieved a surplus of £1.197 million in 16/17. We have reviewed the Council’s 2017/18 budget and MTFS and found that the assumptions used appear reasonable. We understand that the Council has identified some discrepancies as part of the 5 Council’s contract which may result in some forecast savings in the MTFS being reduced, the impact of these will not affect the Council until financial year 2019/20</p> <p>We have discussed the Council’s proposed approach to building a property portfolio using the ‘borrow to invest’ approach. This is an extension of the Council’s current property investment portfolio of £16.5 million assets. This approach was not approved during 2016/17. We understand that at the time of writing the Council is considering a ‘borrow to invest’ proposal with a decision expected in Autumn 2017. If the proposal is approved any investment using this method would not take place until 2018/19 and consequently would be considered in the VFM conclusion for that financial year.</p> |



Value for Money

VFM risks

| What is the significant VFM risk? | What arrangements did this affect? | What are our findings? |
|---|--|---|
| <p>Corporate Services Contracts In April 2016 the Council entered into agreements for Corporate Services Contracts with Capita and Vinci respectively, as part of the Five Council Partnership arrangements. These contracts are due to start in 2017/18 at Havant Borough Council. These contracts were designed to generate savings of over £50m across their lifetime of nine years. The Council will need to ensure that there are good contract management and governance arrangements in operation to ensure that these are achieved. There is a risk that if these savings are not achieved then the financial resilience of the Council will be impacted.</p> | <p>Working with partners and other third parties</p> | <p>We have reviewed the governance arrangements put in place internally at the Council and overall across the partnership to monitor and enforce the performance of the corporate service contracts.</p> <p>We have seen evidence that the Council has internal governance arrangements for the Contracts in place throughout the year through a series of joint arrangements with East Hampshire District Council including regular Heads of Service meetings and a dedicated 5 Councils programme board which was established in January 2017. This replaced a previous local Steering Group that operated prior to this date.</p> <p>The Inter Authority Agreement between the five councils and the contracts with Capita and Vinci set out a number of key boards and committees to provide oversight. We identified the governance arrangements have subsequently been reviewed during the year and some of the governance bodies have not met as regularly as intended. However, we have seen evidence overall that there were regular meetings at an individual council level which addressed the key issues.</p> <p>During the last year the Councils have identified some issues with the contracts which are being actively discussed and resolved with the suppliers. From review of the latest financial projections, these show a decrease in the overall savings being realised over the lifetime of the contracts. In the case of the Capita contract, the more innovative elements of the contract, including the procurement and innovation hubs, need to be re-thought due to changes in context and the five Councils' strategies since the ideas were originally conceived. Capita is working proactively with the councils to reframe these aspects of the contract. The Councils are also working with Vinci to rectify degradation in projected savings across the term of the contracts.</p> <p>For the 2016/17 VFM conclusion, we have taken into account that the Councils have prudently only included savings related to the core transaction processing elements of the Capita contract in their MTFS, and that the Five Councils Partnership is still budgeted to generate savings for the Councils over the lifetime of the contract.</p> |



VFM risks

| What is the significant VFM risk? | What arrangements did this affect? | What are our findings? |
|--|--|---|
| <p>Norse South East</p> <p>The Council has also entered into partnership with Norse Commercial Services and developed a Joint Venture Company called Norse South East. Norse South East will be providing operational Services from April 2016 dealing with refuse and recycling collections, street cleaning, grounds maintenance and beach management. By entering into the partnership arrangement with Norse the Council has secured planned savings and will need to ensure that there are good contract management and governance arrangements in operation to ensure that these are achieved. There is a risk that if these savings are not achieved then the financial resilience of the Council will be impacted.</p> | <p>Working with partners and other third parties</p> | <p>We have reviewed the governance arrangements put in place by the Council to monitor and enforce the performance of the Norse SE contract. A Partnership Board has been formed to provide governance oversight and has met regularly throughout 2016/17.</p> <p>The contract has performed well operationally and has achieved the expected savings identified by the Council when entering into the Joint Venture.</p> |



06

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.

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 Governance and 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 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. 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 accounts requirements.

We have no such matters to report.



07

Assessment of Control Environment



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.

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.

However, during the audit we identified observations and/or improvement recommendations for management's financial processes and controls.

The matters reported here are limited to those deficiencies identified during the audit and important enough for us to report to you.

The table below provides an overview of the observations we have from the 2016/17 audit.

| | High | Moderate | Low | Total |
|---|------|----------|-----|-------|
| Raised in 2015/16 Audit Results Report | 0 | 2 | 0 | 2 |
| Closed during FY17 | 0 | 0 | 0 | 0 |
| New points raised in 2016/17 Audit Results Report | 0 | 2 | 0 | 2 |
| Total open points | 0 | 4 | 0 | 4 |

- Key:
- A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
 - Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within 6 months.
 - Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within 3 months.



Assessment of Control Environment

| Description and impact | Recommendation | Rating | Client response |
|--|---|-----------------|--|
| <p>Bank reconciliation</p> <p>In our 2015/16 Audit Results Report we reported that our work on cash and bank identified that the Council had an unreconciled difference of £120 on the bank reconciliation. We also noted that there was no formal monthly reconciliation process in place due to difficulties experienced following the system migration. As part of our cash and bank work in 2016/17 we noted that the Council is now performing the reconciliation regularly. However, due to continuing system issues the reconciliation can only be performed with zero variance on a certain day every week. As a result, the year-end reconciliation was performed on 30 March 2017 rather than 31 March 2017. The reconciliation was then updated to the 31 March 2017 but due to the complexities this update is showing a small unreconciled difference of £570 on the bank reconciliation. We have reviewed the reconciliations prior to the year end and note there is a £nil unreconciled balance meaning that the Council is properly and appropriately identifying unreconciled differences.</p> | <p>Recommendation 1:</p> <p>The Council should continue to work to resolve the ongoing issues to ensure a reconciliation as at the 31 March can be performed as this reduces the risk of any unreconciled balances.</p> | <p>Moderate</p> | <p>Agreed.</p> |
| <p>Authorisation of journals</p> <p>In our 2015/16 Audit Results Report we reported that there was no independent authorisation of manual journals within the finance department. Without an authorisation or review process there is a risk that journal mispostings may not be identified. Through our 2016/17 audit work we noted that an authorisation or review process for manual journals has not yet been implemented.</p> | <p>Recommendation 2:</p> <p>The Council should introduce an authorisation or review process for manual journals.</p> | <p>Moderate</p> | <p>There are controls in place to ensure manual journals entered are appropriate. These include monthly budgetary control meetings with Budget holders and Service Heads, regular balance sheet reconciliations and monthly Finance review of actuals v. forecasts. Workflow based journal approval is being investigated.</p> |
| <p>Cashflow reconciliation</p> <p>As reported above in section 4 and consistent with observations in 15/16 there is an unreconciled balance of</p> | <p>Recommendation 3:</p> <p>The Finance team should look to perform this reconciliation earlier and/or more frequently</p> | <p>Moderate</p> | <p>The Council's management have assessed that further disclosure here is not material and</p> |



Assessment of Control Environment

| | | | |
|---|--|-----------------|---|
| <p>£225k classified as "other non-cash movements", within the Net cash flow from operating activities note. Despite extended effort it has not been possible to identify what this specifically relates to. This has been included in the Letter of Representation to be agreed by the Governance & Audit Committee. The Council's management have assessed that further disclosure here is not material and would not add any value to the reader of the Accounts and we agree with this assessment.</p> | <p>to identify any potential issues earlier in the year and to isolate the specific time period in which these differences arise, especially since this is re-occurring.</p> | | <p>would not add any value to the reader of the Accounts.</p> |
| <p>Housing Benefit debtors report</p> <p>Our work on the housing benefit debtors found a change in the business objects reporting for the housing benefits system which has meant that the Council is unable to run a report to support the housing benefit debtors retrospectively, this can only be run at the point in time. This means that the Council cannot easily obtain a breakdown of the housing benefit debtor balance.</p> | <p>Recommendation 4:</p> <p>The Council should work with Capita to develop a new report to provide this information.</p> | <p>Moderate</p> | <p>Agreed.</p> |



08 Appendices



Appendix A

Required communications with the Governance and Audit Committee

There are certain communications that we must provide to the Governance and Audit Committee (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 Governance and 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. | 21 June 2017 Audit Plan |
| Significant findings from the audit | <ul style="list-style-type: none"> • Our view of the 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 • Findings and issues around the opening balance on initial audits (delete if not an initial audit) | 26 September 2017 Audit Results Report |
| 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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about Havant Borough Council's ability to continue for the 12 months from the date of our report. |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing | 26 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"> ▶ Asking the Governance and Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ 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"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Governance and Audit Committee responsibility. | 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 | <p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity | We have no matters to report |
| Subsequent events | <ul style="list-style-type: none"> ▶ Where appropriate, asking the Governance and Audit Committee whether any subsequent events have occurred that might affect the financial statements. | We have asked management and those charged with governance. We have no matters to report. |
| Other information | <ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. | We have no matters to report. |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations. |
| Consideration of laws and/or regulations | <ul style="list-style-type: none"> ▶ 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" ▶ 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. | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |

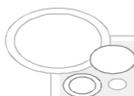


Appendix A

| | | Our Reporting to you |
|---|--|---|
| Required communications | What is reported? | When and where |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. | 26 September 2017 Audit Results Report |
| Group Audits | <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the group audit team's planned involvement in the component auditors' work on the financial information of significant components ▶ 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 ▶ 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. | 21 June 2017 – Audit Plan; and 26 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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p> | 21 June 2017 – Audit Plan; and 26 September 2017 - Audit Results Report |
| Fee Reporting | <p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p> | 21 June 2017 – Audit Plan; and 26 September 2017 - Audit Results Report Final fee will be reported in the Annual Audit Letter |
| Certification work | Summary of certification work | Certification Report |



Independence



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to 21 June 2017 Governance and Audit Committee.

We 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 Governance and 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 Governance and Audit Committee on 26 September 2017.

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 not undertaken non-audit work outside the PSAA Code requirements. 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 | tbc | 46,800 | 46,800 | 52,271 |
| Non-audit work | 0 | 0 | 0 | 0 |
| Total Fee | tbc | 46,800 | 46,800 | 52,271 |

The proposed final fee will include amounts in respect of additional work required to gain assurance over the significant risks in respect of partnerships working and the first year of group accounts. The final fee is subject to the satisfactory clearance of the outstanding audit work. This is subject to approval by the PSAA.



Appendix C

Accounting and regulatory update

Accounting update

Since the date of our last report to the Governance and Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

| Name | Summary of key measures  | Impact on Havant Borough 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"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. <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"> • Reclassify existing financial instrument assets • Remeasure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items. |
| <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"> • Leases; • Financial instruments; • Insurance contracts; and • for local authorities; Council Tax and NDR income. <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"> • 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. | <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"> • Disaggregate revenue into appropriate categories • Identify relevant performance obligations and allocate income to each • Summarise significant judgements |
| <i>IFRS 16 Leases</i> | <p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> | <p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> |



Appendix C

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.

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.

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.

Progress report on implementation of new standards and regulations

| Name | Summary of key measures  | Impact on Havant Borough Council  |
|---|--|--|
| <i>Earlier deadline for production and audit of the financial statements from 2017/18</i> | <ul style="list-style-type: none"> 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. | <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 should consider taking the outlined below:</p> <ul style="list-style-type: none"> Critically review and amended the closedown process to achieve draft accounts production at an earlier date; Streamline the Statement of Accounts removing all non-material disclosure notes; Bring forward the commissioning and production of key externally provided information such as IAS 19 pension information and asset valuations; Provide training to departmental finance staff regarding the requirements and implications of earlier closedown; Re-order tasks from year-end to monthly or quarterly timing to reduce year-end pressure; and Establish and agree working materiality amounts with your auditor. <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> Issued a thought piece on early closedown |



Appendix C

- As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales
- Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017

Locally we have:

- Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable;
- Scheduled a meeting with key finance staff for early October to discuss and agree with the Council areas for early work which could include testing of major income and expenditure streams at month 9, reviewing calculation and allocation of depreciation charges, discussing and agreeing material estimation procedures as part of the interim work.



Appendix D

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

26th September 2017

Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton SO14 3QB,
United Kingdom

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Havant Borough 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 Havant Borough 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, for the Group and Council, 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 (contd)

Management Rep 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 any unadjusted audit differences, summarised below, accumulated 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.
 - Cashflow - Note 22 - We have not corrected this difference identified by and brought to the attention from the auditor because all of the material reconciling items between the Income & expenditure account and cashflow have already been identified in the note and does not add any value to the reader of the Accounts.

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 disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the consolidated or council financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the consolidated or council financial statements.

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 and the Governance 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: 19th July 2017.



Management representation letter (contd)

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 Notes 21 and 38 to the consolidated and council financial statements all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

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. Other information

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



Management representation letter (contd)

Management Rep Letter

I. Comparative information – corresponding financial information

1. There have been changes to the structure of the Financial Statements during 2016/17 with the introduction of the Expenditure and Funding Analysis (EFA). The financial statements for 15/16 have been restated to incorporate these changes.
2. The comparative amounts have been correctly restated to reflect the above matter and the appropriate note disclosure of the this restatement has also been included in the current year's financial statements.

J. 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, 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.
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.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

K. Reserves

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

L. Use of the Work of a Specialist – Actuary

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of the Pension Fund 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.

M. Use of the Work of a Specialist – Property Valuers

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of the Council's property asset portfolio 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.

N. Estimate - NNDR appeals and other provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



Appendix D

Management representation letter (contd)

Management Rep Letter

2. We confirm that the significant assumptions used in making the estimate of provisions (including the NDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

O. Estimate - Pensions Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17
2. We confirm that the significant assumptions used in making the Pensions Valuation Estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

P. Estimate - Valuation of Council land and buildings

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17
2. We confirm that the significant assumptions used in making the valuation of Council land and buildings estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

Q. 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,

_____ Andy Radford – Head of Finance and S151 Officer and _____ Councillor K Smith – Chair, Governance & Audit Committee

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