

East Cambridgeshire
District Council
Audit results report
Year ended 31 March 2017

Private and Confidential

11 September 2017



Dear Resources and Finance Committee Members

We have substantially completed our audit of East Cambridgeshire District Council (the 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.

The statutory deadline for 2016/17 is 30 September 2017. The Council is aiming to approve the financial statements on 21 September 2017. We confirm that we also expect to issue our audit opinion on or shortly after this date. 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 Resources and Finance Committee, other members of the Council, 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

Suresh Patel
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

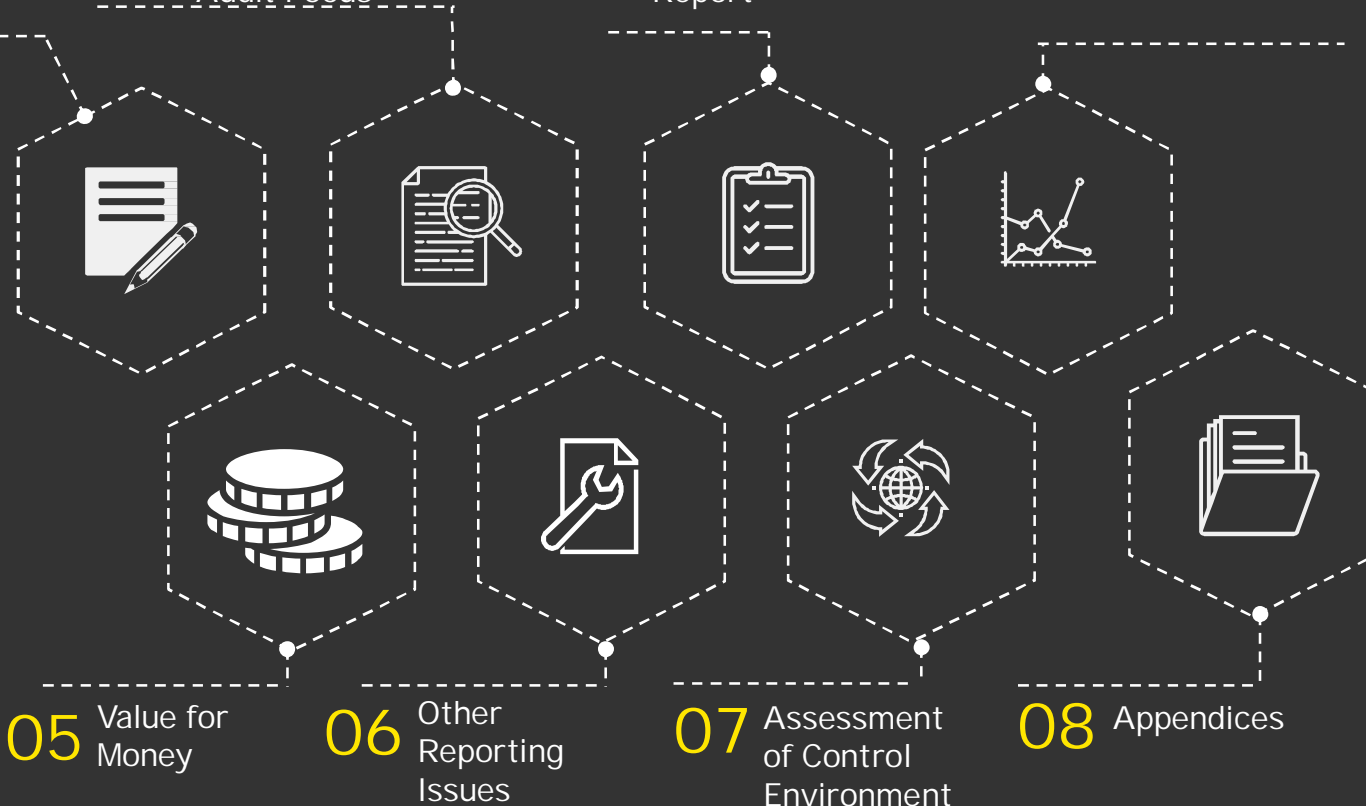
Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



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 February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Resources and Finance Committee, other members of the Council and management of East Cambridgeshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Resources and Finance Committee, other members of the Council and management of East Cambridgeshire District 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 Resources and Finance Committee, other members of the Council and management of East Cambridgeshire District 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 Resources and Finance Committee at the 3 April 2017 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. There have been no changes in our planned audit strategy.

We planned our procedures using a materiality of £797,000 (for the Group this was £799,000). We reassessed this using the actual results for the financial year, which has marginally increased this amount to £802,000 (for the Group this is £814,000). The threshold for reporting audit differences has increased from £39,000 to £40,000 (for the Group from £40,000 to £41,000). The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full.
- Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.
- Councillors' allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

Resolution of query on the treatment of the loan to ECTC - re the Council's treatment of it as capital expenditure;

Review of assurance from the ECTC auditor, and conclusion of our group audit procedures;

Receipt of one outstanding bank confirmation;

Final procedures:

- Review of the final version of the financial statements;
- Completion of subsequent events review;
- Completion of Final Review Procedures;
- Receipt of the signed management representation letter

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



Executive Summary

Status of the audit (continued)

The Council is below the audit threshold for audit of the Whole of Government Accounts (WGA) return which means we are required by the NAO only to perform a minimal review with no testing of counterparty information. We plan to issue our assurance statement to the NAO on the same date we issue our audit opinion.

The period for electors to ask questions about the accounts ended on 30 July. We received no questions and therefore will be able to certify completion of the audit when we issue our audit opinion.

Audit differences

At the time of writing this report we have identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that this be corrected or a rationale as to why it is not corrected be approved by the Resources and Finance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £0.13 million. Details can be found in Section 4 Audit Differences.

We also identified a small number of minor disclosure adjustments which have been corrected by management in the revised financial statements subject to approval.

During the course of the audit a number of minor anomalies were identified with prior year disclosure notes. Some of these were as a result of the Council amending and improving its presentation of some notes this year. None of the changes impact on the prior year financial outturn or the Balance sheet.

Areas of audit focus

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

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

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- 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 Resources and Finance Committee.



Executive Summary

Other reporting issues

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

We have no other matters to report.

Control observations

During the completion of our audit 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.

We did identify a balancing item of £136,000 in the bank reconciliation that the finance team were initially unable to resolve. We requested further work by management to provide us with assurance that it does not represent a material error or errors that net to this amount. The finance team have subsequently carried out further work and reduced the unidentified difference to £48,000.

Value for money

We 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 no significant VFM risks.

However we did review the Council's arrangements for ensuring financial resilience and the robustness of its medium term financial plans and assumptions. We have concluded that arrangements are appropriate.

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





02 Areas of Audit Focus



Areas of Audit Focus

Audit issues and approach: Risk of Fraud in Revenue and Expenditure Recognition

Revenue Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

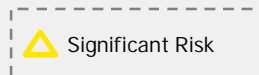
What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

The Council has historically performed well in relation to their outturn position for the year. In 2016/17 the Council underspent by £1.024 million.

These areas have also been considered as being linked to the risk of fraud in management override of controls (see below).



What did we do?

In order to address this risk we carried out a range of procedures including:

- Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they had been applied correctly during our detailed testing;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (refer to details included in the management override of control section below);
- Reviewing accounting estimates (e.g. IAS 19 liability, valuation of property plant and equipment (PPE) and provisions) for evidence of management bias (see relevant sections below);
- Sample testing additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- Testing a sample of liabilities based on our established testing threshold for reasonableness;
- Performing cut-off testing of transactions both before and after year-end to ensure that they were accounted for in the correct year based on our established testing threshold;
- Considering the completeness of liabilities included in the financial statements; and
- Evaluating the business rationale for any significant unusual transactions.



Audit issues and approach: Management Override of Controls

Management override

What are our conclusions?

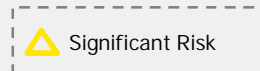
We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

What is the risk?

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

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.

Linking to our risk of fraud in revenue and expenditure recognition above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme. We have also considered the completeness of liabilities and valuation of estimated liabilities for any management bias.



What did we do?

In order to address this risk we carried out a range of procedures including:

- Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population. We analysed these journals using criteria we set to identify any unusual types or amounts. We then tested a sample of journals that met our criteria to supporting documentation;
- Reviewing accounting estimates (e.g. IAS 19 liability, valuation of PPE and provisions) for evidence of management bias (see relevant sections below);
- Considering the results of our work on revenue and expenditure recognition as set out above, specifically considering any instances of management bias; and
- Evaluating the business rationale for any significant unusual transactions.



Audit issues and approach: Management Override of Controls



Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- The valuation of Property, Plant and Equipment – due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.
- Valuation of pension liabilities - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.

Specifically in relation to other estimates:

- The provisions balance in the financial statements is £0.434 million at 31 March 2017, and is not material, the largest being the business rates appeal provision at £0.367 million. We challenged management on the reasonableness of their approach for calculating this provision. We had no issues from our audit work on provisions;
- Creditor accruals- the financial statements include sundry creditors of £1.342 million as at 31 March 2017 – our audit work included a sample test of these items and we have no issues to report.

We evaluated the remainder of the Council's estimates, including bad debt provision and depreciation, as low risk of material misstatement. No issues were noted in our work in these areas.



Areas of Audit Focus

Other audit issues arising



Accounting for Property, Plant and Equipment

The fair value of Property, Plant and Equipment (PPE) represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Council engages an external expert valuer who applies a number of complex assumptions. Annually, PPE are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value).

As the Council's asset base is significant, and the outputs from the valuer are subjective, there is a risk that the fair value of PPE may be under or overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

Our approach has focused on:

- Considering the work performed by the Council's valuer, Wilks, Head and Eve (WHE), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewing and sample testing the key asset information provided by the Council to WHE in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considering the annual cycle of valuations to check that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- Reviewing the desktop review performed by management over assets not subject to valuation in 2016/17 to confirm that the fair value of the remaining asset base is not materially misstated in the accounts;
- Considering external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report. Specifically we have considered if this indicates any material variances to the asset valuations provided to the Council by WHE and the outcome of the desktop review performed by management;
- Considering changes to useful economic lives as a result of the most recent valuation;
- Considering whether asset categories held at cost have been assessed for impairment and the accounts are materially correct; and
- Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

We have not identified any material issues in the valuations based on our work.



Areas of Audit Focus



Pension Valuations and Disclosures

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

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £22.230 million (£21.575 million at 31 March 2016).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- Liaising with the auditors of Cambridgeshire Pension Fund, BDO, to obtain assurances over the information supplied to the actuary in relation to the Council;
- Assessing the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries, commissioned by Public Sector Auditor Appointments for all Local Government sector auditors; and
- Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

No issues have been identified in completing our work. Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in Note 21 to the financial statements, and in the accounting policies note.



Group Structure

The Council has set up a new wholly owned subsidiary, East Cambridgeshire Trading Company (ECTC Ltd), in addition to its existing subsidiary East Cambridgeshire Business Centre (ECBC). As in prior years the Council has considered the consolidation of subsidiaries including the elimination of inter-group transactions and the consolidation adjustments required to align accounting policy differences. The Council has also needed to ensure that the accounts reflect all required disclosure requirements for group accounts. The production of statements and disclosure notes for the group accounts and the closedown and consolidation process therefore presents a financial statements risk.

Our audit approach has focused on:

- Reviewing the Council's assessment of the group boundary and the significance of the components to the group accounts. Previously the Council has consolidated ECBC but for 2016/17 it has decided to also consolidate ECTC Ltd. We concur with the Council' assessment.
- Engaging with Price Bailey, as the auditors of ECTC Ltd, to report to us on procedures they have performed over balances included in the ECTC Ltd financial statements. We discussed the audit with Price Bailey and understand that there are no significant issues arising from their work. At the time of writing this report we have received their formal reporting and we are reviewing the results. We will provide the Committee with an update.
- Reviewing the Council's processes for consolidation, agreeing the consistency of accounting policies, and checking that inter-company elimination is appropriate. On receipt of the reporting from Price Bailey, we will confirm that this is consistent with the audited balances of the Group.
- We have reviewed the completeness of the disclosures in the group accounts to ensure they are materially accurate and complete.

At the time of writing this report we are concluding our group audit procedures. No issues have been identified in the work completed to date.



Areas of Audit Focus



Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changed the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates and reflects the Council's internal financial reporting structure.

This change has required 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 has required audit review. We performed this review in April 2017.

Our audit approach focused on:

- ▶ Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code;
- ▶ Reviewing 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
- ▶ Agreeing the restated comparative figures back to the Council's segmental analysis and supporting working papers.

We proposed some minor disclosure amendments that management have agreed to make in the financial statements. In particular we highlighted that the EFA, is not a Primary Statement (consistent with the Code Guidance notes). Management have updated the narrative to the EFA to reflect this.



03 Audit Report



Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST CAMBRIDGESHIRE DISTRICT COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of East Cambridgeshire District Council (the Authority) 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,
- the related notes 1 to 31 of the Authority's Accounts including the Expenditure Funding Analysis, and;
- Collection Fund and the related notes 1 to 6.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the s151 Officer and auditor

As explained more fully in the Statement of the s151 Officer's Responsibilities set out on page 16, the s151 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.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the s151 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 East Cambridgeshire District Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

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



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Conclusion on East Cambridgeshire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

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

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



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether East Cambridgeshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Cambridgeshire District 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, East Cambridgeshire District 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, East Cambridgeshire District 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 East Cambridgeshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Suresh Patel
for and on behalf of Ernst & Young LLP, Appointed Auditor
Cambridge Office
x September 2017



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 £40,000 relating to East Cambridgeshire District Council in our summary of misstatements table below.

There are no corrected misstatements that we wish to bring to your attention. We have identified a number of minor disclosure adjustments during the audit that have been updated by management in the financial statements. We do not deem any of these to be so significant that they require reporting to you.

At the time of writing this report we have identified one uncorrected misstatement which we have summarised in the table below.




Audit Differences

Audit differences (continued)

Summary of unadjusted differences

At the time of writing this report we highlight the following misstatements in the financial statements and/or disclosures which were not corrected by management. We ask you to correct these uncorrected misstatements or give a rationale as to why they have not been corrected. This should be considered and approved by the Resources and Finance Committee and included in the Letter of Representation:

Account 31 March 2017 (£'000)		Comprehensive income and expenditure statement Debit/(Credit) Current Period	Assets current Debit/(Credit)	Assets non- current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Errors:						
Bank reconciliation – balancing amount(see page7)		£136	(£136)			
Balance sheet totals						
Income effect of uncorrected misstatements		£136				
Cumulative effect of uncorrected misstatements		£136	(£136)			

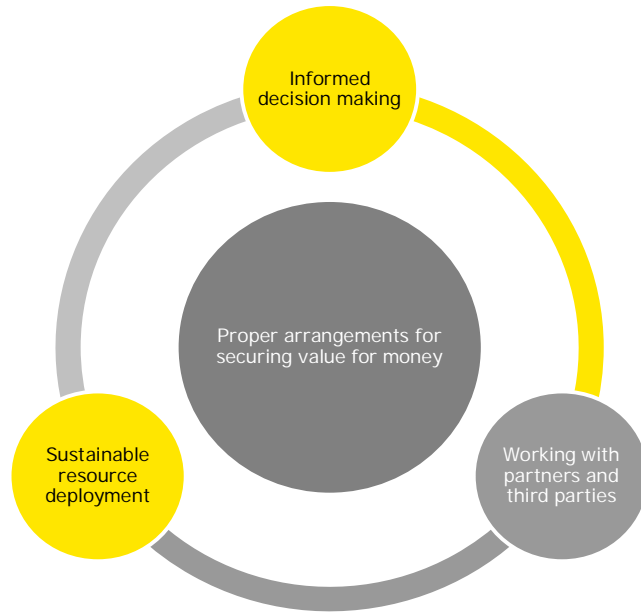
We identified no further amounts either individually or as a whole material to the consolidated financial statements for the year ended 31 March 2017.



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 no significant risks around these arrangements. The table below shows the issues we considered.

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



Consideration of financial resilience

To date the Council has responded well to the financial pressure it faces. However, it has identified the need for substantial savings over the period to 2020 to balance the budget:

Budget gaps:

- ▶ 2017/18 – no budget gap after use of savings reserve of £772,000
- ▶ 2018/19 – no budget gap after use of savings reserve of £1.757 million
- ▶ 2019/20 – budget gaps of £410,000 after use of savings reserve of £1.972 million

In 2016/17 the Council continued its track record of meeting its annual budget, delivering a surplus of £1 million, enabling it to transfer £1.7 million to its Surplus Savings Reserve. This reserve has a balance of £4.8 million, after the transfer to the reserve during the year of £1.7million. The general fund balance stands at £1 million as at 31 March 2017, total earmarked reserves at 9.752 million, and capital receipts and grants at £2.263 million. Total usable reserves are £13.015 million

Detailed savings plans will be required in subsequent years to ensure adequate reserves are sustained.

It is clear that the Council is facing a number of financial pressures which require it to identify significant further savings or will require some difficult decisions regarding its ability to deliver its service plans for future years.

- Taking informed decisions
- Deploying resources in a sustainable manner

We reviewed the Council's 2017/18 budget and the medium term forecast, assessing the extent of the savings plans in place. This took into account the Council's historic record.

In 2016/17 the Council continued its track record of achieving its annual budget, delivering a surplus of £1 million. The Surplus Savings reserve has a balance of £4.8m. The general fund balance stands at £1 million as at 31 March 2017, and total earmarked reserves at £13.015 million.

The 2017/18 budget is balanced, through the use of efficiencies and income plans. Although it is still relatively early in the financial year, we assessed these as reasonably-based taking into account the Council's track record of delivering savings over the recent financial periods. While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans gives confidence that it can continue to do so.

We also reviewed the key assumptions in the budget and MTFs, which adequately took into account the economic environment at that time for business rate projections, and the forecast for reduced central government funding and the potential four-year settlement.

The budget gaps for 2017/18 and 2018/19 have been closed after planned use of the surplus savings reserve. The gap in 2019/20, reported in the budget book, is £410,000 after using up the surplus savings reserve of £1.972 million. However with the underspend reported in 2016/17, and its allocation to the Surplus Savings Reserve, the Council is confident that it will balance the budget for 2019/20.

After 2020 the budget gaps become larger. Compared to a gross expenditure of approximately £40 million per annum, and historic performance of closing the gap, we assess the Council to have adequate arrangements, based on the known information as at the end of the financial year.



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 give an opinion on the consistency of the financial and non-financial information in the Council's Statement of Accounts 2016/17 with the audited financial statements.

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

Our findings are:

- Financial information within the Narrative Report and the Council's Commentary and Review 2016/17 published within the Statement of Accounts was consistent with the audited financial statements
- We have reviewed the Annual Governance Statement and can confirm it is consistent with other information that we are aware of 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.

The Council is below the audit threshold for audit of the Whole of Government Accounts (WGA) return. We plan to issue our assurance statement to the NAO on the same date we issue our audit opinion.



Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We have no matters to report.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

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

We have no matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

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

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

Area	Bank reconciliation
Observation	<p>We did identify a balancing item of £136,000 in the bank reconciliation that the finance team have not yet been able to resolve. Further work needs to be performed on this item to provide us with assurance that it does not represent a material error or errors that net to this amount.</p> <p>The Council needs to identify what makes up this balance and either post the transaction(s) to the correct places or write it off.</p>
Management Comment (to be referred to in the Governance Statement)	<p><i>Further work has been undertaken since the audit and we believe we have reduced the difference to £48,000. Work is still on-going to get to the bottom of this figure, to allocate it to the correct place. However, as it is a credit value to the Council and much of it potentially relates to a previous year, we may choose to write it into the Accounts. As previously agreed, we will action these changes in the 2017/18 accounts.</i></p>

A close-up photograph of a person's hand sorting through a filing cabinet. The hand is reaching towards a stack of papers in a light-colored folder. The filing cabinet has several drawers, some of which are open, revealing stacks of papers and folders. The background is a light-colored, textured wall.




08 Appendices



Appendix A




Required communications with the Resources and Finance Committee

There are certain communications that we must provide to 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 Resources and Finance 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.	April 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 	September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ 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 East Cambridgeshire District 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 	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 Resources and Finance Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ 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 Resources and Finance 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	Significant matters arising during the audit in connection with the Council's related parties including, where applicable: <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 Resources and Finance 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. 	September 2017 Audit Results 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. 	At the time of writing this report we are awaiting for external confirmation from Goldman Sachs of the investment the Council holds. We will provide you with an update at the Resources and Finance Committee on 21 September 2017.



Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ 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 Resources and Finance 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 Resources and Finance Committee. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	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>	April 2017 Audit Plan 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>	April 2017 Audit Plan September 2017 Audit Results Report
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 the Resources and Finance Committee in April 2017.

We complied with the APB Ethical Standards and the requirements of the Public Sector Audit Appointment's (PSAA) 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 Resources and Finance 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 Resources and Finance Committee on 21 September 2017.

We confirm we have undertaken no non-audit work outside the PSAA Code requirements.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have undertaken no non-audit work outside the PSAA Code requirements.

	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee - Code work (see note 1)	46,397	41,500	43,897
Certification work (Housing Benefit return)	15,632	15,632	12,004

Note 1: Our actual fee is higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) due to additional work required to:

- audit the group accounts as set out in our audit plan (£3,897); and
- additional time spent at the start of the audit to resolve trial balance completeness issues highlighted through our analytics tool (£1,000)

These additional fees are subject to agreement with PSAA.

We will confirm our final fees following the completion of our audit and certification work and report this within our Annual Audit Letter.





Appendix C

Accounting and regulatory update



Accounting update

Since the date of our last report to the Resources and Finance 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 East Cambridgeshire District 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 • Re-measure 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> <p>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>	<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



Appendix C

Name	Summary of key measures 	Impact on East Cambridgeshire District Council 
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<p>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>	<p>Through working together, and reflecting on this year, there are a number of areas where the closedown and audit processes can be further improved going forward. We do not expect the formal earlier deadline to pose a significant issue for the Council.</p>



Appendix D

Request for a Management representation letter

[To be prepared on the entity's letterhead]

X September 2017

Suresh Patel, Executive Director

Ernst & Young LLP
1 More London Place
London
SE1 2AF

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of East Cambridgeshire District 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 East Cambridgeshire District 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 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 for the Council, \[the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17\]](#) and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.



Appendix D

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 [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17] for the Council that are free from material misstatement, whether due to fraud or error.
5. *[When there are unadjusted audit differences in the current year or we determine that the current year effects of correcting prior year differences are significant.]* We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, 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. *We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].*

[The following representation is included when management believes that certain of the identified items, even though immaterial, are not differences.] We do not agree that items *[specify items in question]* constitute differences because *[specify reasons for disagreement]*.

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. *[When management is aware of the occurrence of fraud or suspected fraud, or has received allegations of fraud.]* 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.

[When management is not aware of the occurrence of a fraud or suspected fraud and has not received any allegations of fraud.] 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:



Appendix D

- 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 Resources and Finance 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: [21 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 \[X\]](#) to the consolidated and council financial statements all guarantees that we have given to third parties [\[or state no guarantees to third parties\]](#)
4. The claim by *[name of claimant]* have been settled for the total sum of XXX which has been properly accrued in the consolidated and council financial statements. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. [Other than..... described in Note \[X\] to the consolidated and council financial statements](#), there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto. [\[or just start sentence 'There have been no...\]](#)



Appendix D

G. Group audits

1. *[if relevant]* 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, ...]*.
2. We confirm that the content contained within the other information is consistent with the financial statements.

I. 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 requirement for a 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. The financial statements reflect the operating segments reported internally to the Council.

J. Comparative information – comparative financial statements

In connection with your audit of the comparative consolidated and council financial statements for the year ended 31 March 2016 we represent, to the best of our knowledge and belief, the following:

1. There have been no significant errors or misstatements, or changes in accounting policies that would require a restatement of the amounts from the consolidated and council financial statements for the year ended 31 March 2016 which are shown as comparative amounts in the consolidated and council financial statements for the year ended 31 March 2017. Any differences in the comparative amounts from the amounts in the consolidated and council financial statements for the year ended 31 March 2016 are solely the result of reclassifications for comparative purposes.

K. Going Concern

1. Note [X] to the consolidated and council financial statements discloses all of the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.



Appendix D

L. Income and Indirect Taxes *[if relevant]*

1. We acknowledge our responsibility for the tax accounting methods adopted by the Group and Council, which have been consistently applied in the current period, and for the current year income tax provision calculation (and [specify indirect taxes, if significant])
2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carryforward from expiring.
3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

M. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the *land and buildings valuations* 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. 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 sincerely

(Chief Financial Officer)

(Chair of the Resources and Finance Committee)

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.

All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com