



**Stevenage Borough
Council**
Audit results report
Year ended 31 March 2018

13 July 2018



EY

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Private and Confidential

13 July 2018



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Stevenage Borough Council for 2017/18.

We have substantially completed our audit of Stevenage Borough Council for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 26 July 2018.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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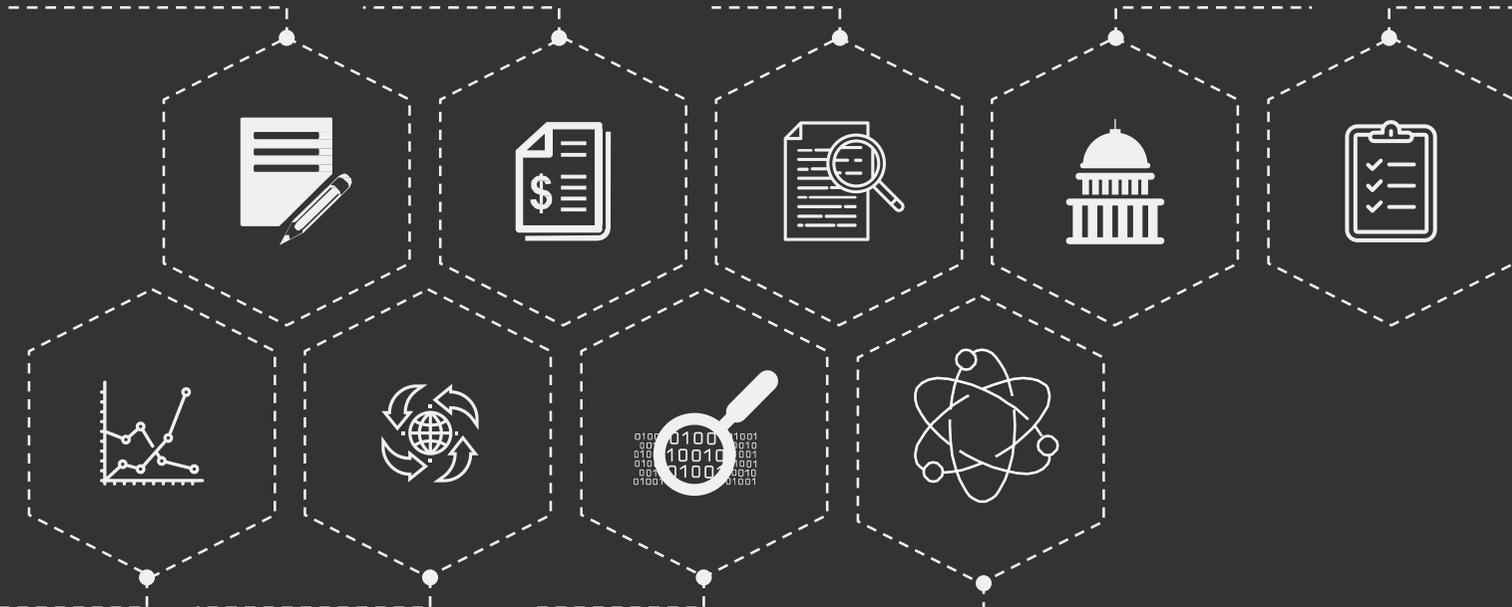
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal 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 February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Stevenage Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Stevenage Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Stevenage Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 26 March 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- ▶ Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.103m, but that we would update this at year end. Our materiality has slightly increased to £2.104m. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) is £0.106m.
- ▶ Changes in risks: In our Audit Committee Planning Report, we communicated our significant risk in relation to the accounts and VFM conclusion. Following receipt of the draft accounts and undertaking our work during the audit, the risks remain consistent with our initial assessment.

Status of the audit

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

- Review of EFA and updated accounts for IAS 19 pension liability changes
- Completion of our work on the pension reserve, pension liability
- Final review by director of file and clearance of any remaining queries
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

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

Executive Summary

Audit differences

There is one unadjusted audit differences arising from our audit. This relates to the valuation of the swimming pool in Stevenage. When reviewed at our prior year audit by EY Real Estate they suggested that in their view it was below the range that they would expect for the accounting estimate. However there were other offsetting differences that year, this year these offsets have been removed.

There has been one material adjustment to the accounts during the audit this is following receipt of a letter from the auditor to Herts Pension Fund which highlighted that due to an improved position from the time the IAS 19 reporting information was provided to Stevenage Borough Council the share of the net assets in the fund as at 31 March 2018 has increased by £2.342m. Details can be found in Section 4 Audit Differences.

There were some other minor changes to disclosures.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk:

- The Council faces significant financial challenges over the next three to four years, with a forecast savings of £2.5 million required by 2021/22. In addition there are further savings required of approximately £0.2 million a year for the Housing Revenue Account. Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable. This was identified as a significant risk at our 2016/17 audit.

We also identified the following other risks in respect of value for money:

- The Council has ambitious plans for the regeneration of the town centre and the first scheme being carried out as part of this (SG1) involves redevelopment focused on the Town Square and surrounding area including provision of a new civic hub. A competitive dialogue process has been followed in order to appoint a developer partner. Significant resources including senior officer time are invested in the project. We needed to be assured that suitable arrangements have been put in place for the scheme.
- The Council has approved a strategy for 2017/18 to 2019/20 which would see £15 million being invested in property being funded from prudential borrowing. The objective is to obtain income of £0.2 million a year to the general fund (£0.1 million in 2017/18) and a target rate of return of no less than 6%. The strategy is one of the ways in which the Council is aiming to reduce its budget gap and we wanted to review the arrangements for the monitoring of the achievement of the strategy.



Executive Summary

Value for money (continued)

The Council is ambitious in its plans for the regeneration of the town centre and its neighbourhood areas. Like many councils it is seeking to develop new revenue streams in order to help close its budget gap. There is significant investment of officer time in these developments. From the work undertaken we consider that the Chief Financial Officer is aware of the risks associated with the developments planned. Based on current information it would require multiple failure in delivery of both increases to fees and charges, and the revenue stream from new investment property strategy in combination with a failure to develop alternative options, to push the Council's reserves below the minimum level identified as necessary. Based on the Council's previous track record of delivering savings and managing its budget we consider that this is not a high risk but it will remain an area of focus for both the Authority and the audit team.

Executive Summary

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

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

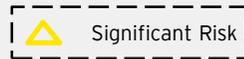
Significant risk

Risk of Management Override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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?

In response to the risk, we:

- Enquired of management about risks of fraud and the controls in place to address those risks;
- Considered the oversight given by those charged with governance of management's processes over fraud by direct enquiry;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias;
- Evaluated the business rationale for any significant unusual transactions;
- Reviewed and tested revenue and expenditure cut-off at the period end date;
- Tested a sample of capital expenditure to verify that revenue costs have not been inappropriately capitalised;
- Tested a sample of revenue expenditure funded from capital under statute to ensure only used for appropriate items;
- Verified that adjustments between the accounting basis and funding basis in the movement in reserves have been correctly made in accordance with the Code.



Areas of Audit Focus

Significant risk

Risk of Management Override

What judgements are we focused on?

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

- Material accounting estimates, including the provision for business rates appeals.
- Cash income, cash expenditure and payables cut-off.
- Journal entries.
- Unusual transactions.

What are our conclusions?

- We obtained the responses we requested from management and those charged with governance to our enquiries and used these to inform our understanding of fraud risks. We noted that key elements of the entity level control framework that we would expect to see, especially arrangements for internal audit, and risk management, were in place.
- Our walkthrough testing included considering what controls are in place to address significant risks. We concluded that these are in large part year end processes including management review of the draft financial statements. We confirmed that these controls were in place, although our approach was not to rely on controls.
- We did not identify inappropriate use of journal entries.
- Our work on the testing of accounting estimates has been completed, and we report in the next section on our work on these estimates in detail for PPE and pensions. There is a difference of view between the Council's valuer and our own specialist on the value of the swimming pool in Stevenage. There are no indications of management override as such. Our work on the business rates provision for appeals found that this was appropriately supported.
- We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.
- We did not identify any material cut-off issues at the period end date.
- Our testing of capital and revenue expenditure funded from capital under statute found that the items were appropriately treated.
- The adjustments between the accounting basis and funding basis in the movement in reserves have been correctly made in accordance with the Code.

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



Areas of Audit Focus

Other Areas of Audit Focus

Property, Plant and Equipment and Investment Property Valuations

What is the risk?

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

What judgements are we focused on?

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

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

What did we do?

The Council obtained a full update of the valuation undertaken in 2016/17 by Wilks Head Eve LLP. In response, we completed the following procedures:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. This was done by our in house specialists reviewing responses to enquiries they made of the valuer. We also followed up any issues arising by checking the position against a sample of assets reviewed in detail by our EY Real Estate specialists in 2016/17;
- We checked that the Council had communicated to the valuer changes in assets;
- We reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base was not materially misstated;
- We considered changes to useful economic lives as a result of the most recent valuation in our depreciation testing; and
- We tested that the accounting entries had been correctly processed in the financial statements.

What are our conclusions?

Our work on the valuation of land and buildings and investment property exercise is complete.

Upon following up the position on the sample of assets revalued in 2016/17 we found that assets were either within range or not materially outside of the range. There was one asset, the swimming pool in Stevenage town centre, where the value whilst having increased from £3.1m to £3.7m was still under the range that the EY specialist considered would be appropriate for this asset (£5.2m to £6.2m). The Council's valuer has reduced the valuation to reflect the fact that whilst the pool is the Council's asset it is managed by a third party until 2023 which means that the Council does not directly receive income from the asset. The EY specialist considers that given the asset is not held as an investment property but rather for operational/utility purposes that this consideration is not relevant.

We have included this difference in view in our errors schedule at section 5.



Areas of Audit Focus

Other Areas of Audit Focus

Pension Liability Valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

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

What judgements are we focused on?

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

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

What did we do?

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

What are our conclusions?

Our work is in progress in this area and we will update the committee of our findings.

The Council has amended the draft statement of accounts to reflect an up to date estimate from the actuary of its share of the Hertfordshire Pension Fund asset value as at 31st March 2018. The statement of accounts has been prepared based on IAS19 data and assumptions taken as at December 2017, with a forecast of the 31 March 2018 position. The Hertfordshire Pension Fund accounts include an up to date estimate of the fund asset value as at 31st March 2018, and this was £67million higher reflecting improvements in market conditions. Stevenage Borough Council's share of this difference in estimate is £2.342million. Although the change in estimate of the fair value of the fund is within a reasonable range, as this difference is above our audit materiality, the Council have agreed to adjust its financial statements and disclosures to reflect this up to date estimate. The Council have obtained from its actuary up to date IAS19 disclosures and we will check the completeness and accuracy of the adjustments to the accounts.



Areas of Audit Focus



Other matters

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

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

The minutes of this meeting corroborate our view that Local Authority income streams from contracts with customers are immaterial "income streams for local authorities [are] very substantially less material than income from taxation." (CIPFA/LASAAC Local Authority Code Board meeting - 6th June 2017 - para 11.5). Income from taxation and grants does not fall within the scope of IFRS 15 as it is not contractually based revenue from customers.

It is our view, that IFRS 15 will not have a material impact on this Council's single entity financial statements. The vast majority of the Council's income streams are taxation or grant based.

The following income streams which are within the scope of IFRS 15 are immaterial to the Council:

- fees and charges for services under statutory requirements - e.g. application fees for taxi licenses or planning fees;
- sale of goods provided by the authority - e.g. retail sales at leisure centres, concessionary sale at local authority theatres; and
- charges for services provided by a local authority - e.g. home care services, maintenance for council dwellings or transport fares.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

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

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Stevenage Borough Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Financial Report including Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Stevenage Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Assistant Director (Finance and Estates)(Chief Financial Officer) Responsibilities set out on pages X, the Chief Financial 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.



Audit Report

Our opinion on the financial statements

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to

consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

Certificate

We certify that we have completed the audit of the accounts of Stevenage Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



Audit Report

Our opinion on the financial statements

Use of our report

This report is made solely to the members of Stevenage 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.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
X July 2018

The maintenance and integrity of the Stevenage 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

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £0.106m which have been corrected by management:

- £2.342m adjustment for Stevenage Borough Council share of the up to date estimate of the net assets of the Hertfordshire Pension Fund which results in a reduction of the pension liability and pension reserve.
- other minor disclosure amendments.

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **Audit Committee** and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2018 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase				Reserves
		Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Revaluation Reserve
Errors						
Judgemental differences:						
▶ Stevenage swimming pool valuation			1,608			-1,608



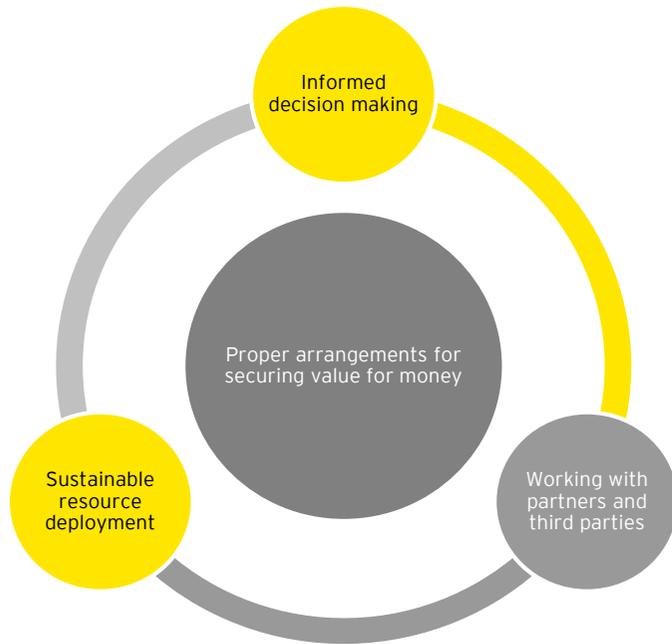
05

Value for Money Risks





Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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

Overall conclusion

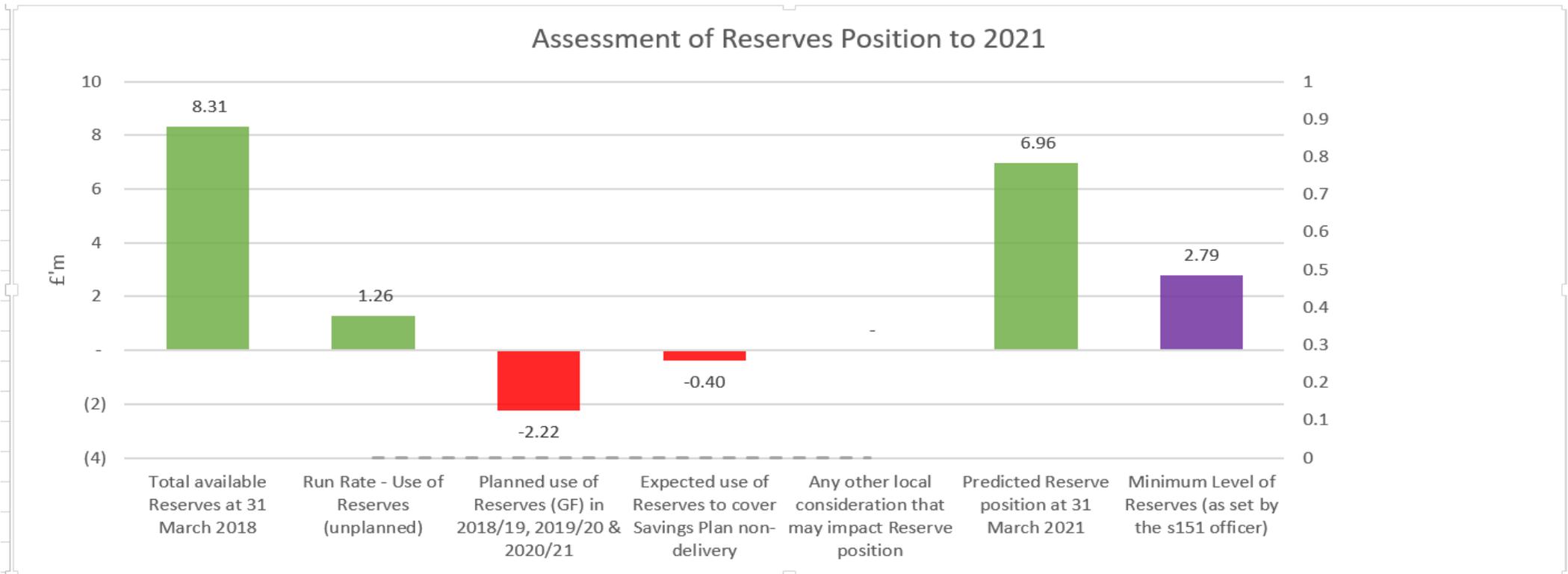
We identified one significant risk and two other risks around these arrangements. The tables below present our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

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

Assessment of Reserves Position to 2021



Our Assessment

In our assessment we considered:

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

We have also looked at the Authority's planned use of borrowing over the same time frame to inform our assessment.

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



Value for Money Risks

We are only required to determine whether there are any risks 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 Planning Report.

What is the significant value for money risk?

Achievement of Savings Needed over the Medium Term

The Council faces significant financial challenges over the next three to four years, with a forecast savings of £2.5 million required by 2021/22. In addition there are further savings required of approximately £0.2 million a year for the housing revenue account.

Given the scale of the savings needed, there is a risk that saving plans to bridge this gap are not robust and/or achievable. This was identified as a significant risk at our 2016/17 audit.

What arrangements did the risk affect?

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

Conclusion

We concluded that arrangements are appropriate overall given:

- The Council’s level of reserves at £6m which is above the minimum level identified by the Chief Financial Officer of £2.5m
- The identification of schemes to deliver the bulk of the savings required. Those for 2018/19 were well developed at the time of our review.
- The track record of delivering against budget
- The assumptions used in the medium term financial plan are what we would expect

There is however very little scenario planning/sensitivity reporting, other than impact of different council tax increases. The Council has had to scale back its increase in fees and charges for 2018/19, whilst if a similar scaling back is required for later years of the strategy this would still leave the Council with its minimum balance it may have to reconsider its strategy in this area.



Value for Money Risks (continued)

We are only required to determine whether there are any risks 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 Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	Conclusion
<p>The Council has ambitious plans for the regeneration of the town centre. The first scheme being carried out as part of this (SG1) involves redevelopment focused on the Town Square and surrounding area including provision of a new civic hub. A competitive dialogue process has been followed in order to appoint a developer partner. Significant resources including senior officer time are invested in the project. We needed to be assured that suitable arrangements have been put in place for the scheme.</p>	<ul style="list-style-type: none"> ▪ Take informed decisions; ▪ Deploy resources in a sustainable manner; and ▪ Work with partners and other third parties. 	<p>The review suggests that the Council has followed proper processes to date although this is a long term project with major funding from third parties and one that we will need to continue to review as the governance arrangements emerge. Currently the capital programme recognises the projects that will be LEP funded but there are likely to be further projects linked to SG1 which SBC will wish to fund from its own resources. It has already done public realm works in the town centre ahead of SG1. The capital strategy that went to Members in February 2018 recognises that the Council will need to build up resources for works that will be linked to SG1.</p>
<p>The Council has approved a strategy for 2017/18 to 2019/20 which would see £15 million being invested in property being funded from prudential borrowing. The objective is to obtain income of £0.2 million a year to the general fund (£0.1 million in 2017/18) and a target rate of return of no less than 6%. The strategy is one of the ways in which the Council is aiming to reduce its budget gap and we reviewed the arrangements for the monitoring of the achievement of the strategy.</p>	<ul style="list-style-type: none"> ▪ Take informed decisions; ▪ Deploy resources in a sustainable manner 	<p>The strategy got off to a slow start in 2017/18 with the acquisition of one property (Essex House) which is due to deliver a net revenue stream of £44k per year. This meant the Council did not meet its target for this revenue stream in 2017/18 and the Chief Financial Officer has flagged the delivery of this saving option as a risk area on the risk register.</p>



Value for Money Risks (continued)

We are only required to determine whether there are any risks 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 Planning Report.

Overall Conclusion

The Council is ambitious in its plans for the regeneration of the town centre and its neighbourhood areas. Like many councils it is seeking to develop new revenue streams in order to help close its budget gap. There is significant investment of officer time in these developments. From the work undertaken we consider that the Chief Financial Officer is aware of the risks associated with the developments planned. Based on current information it would require multiple failure in delivery of both increases to fees and charges, and the revenue stream from new investment property strategy in combination with a failure to develop alternative options, to push the Council’s reserves below the minimum level identified as necessary. Based on the Council’s previous track record of delivering savings and managing its budget we consider that this is not a high risk but it will remain an area of focus for both the Authority and the audit team.



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 2017/18 with the audited financial statements

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

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

We have reviewed the Annual Governance Statement 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 have no issues to raise.

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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations.

We have no matters to report in respect of the above. Our draft letter of representation is at Appendix B.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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

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



08 Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all Integra financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain information on all payroll transactions posted in the year from the general ledger so that we can perform further analysis for example on average value of transactions.

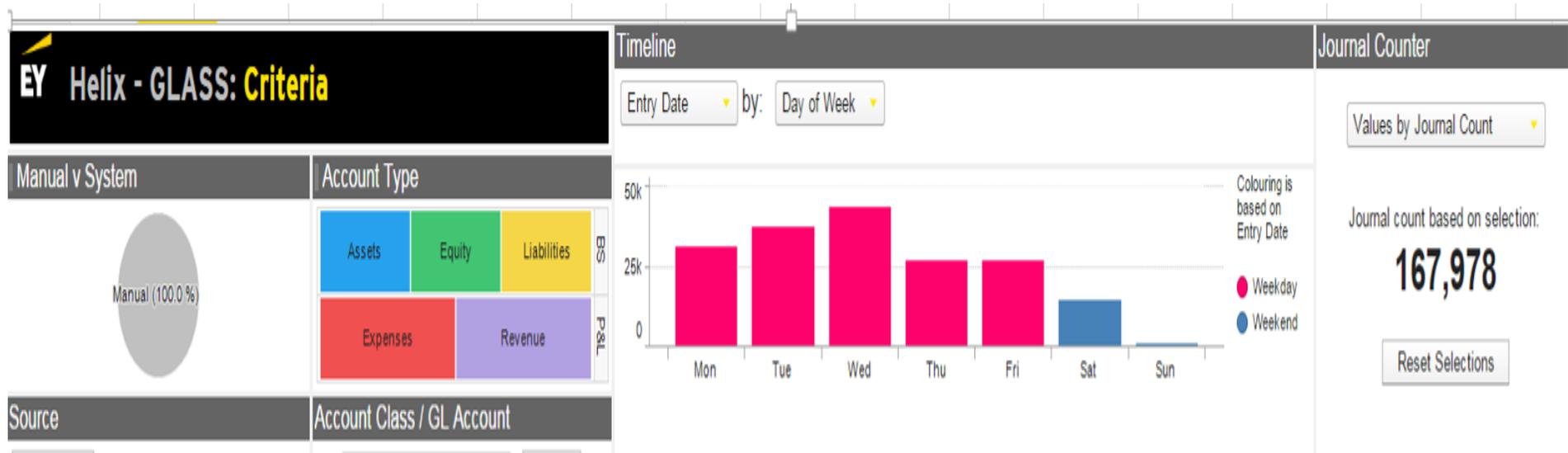


Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the Integra journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





Journal Entry Testing

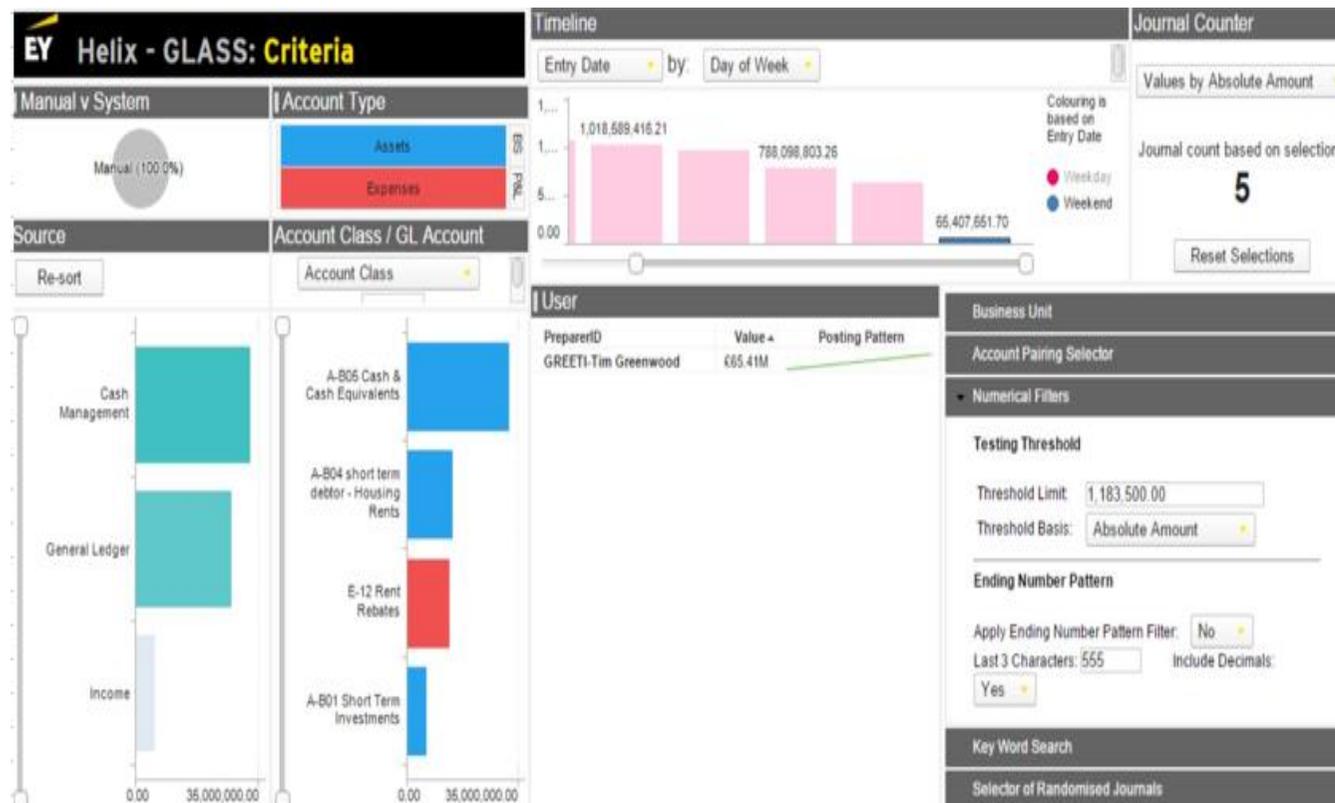
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – LG – 31 March 2018

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable for example journals above a certain value that have been posted at the weekend.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



Payroll Testing

What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

Payroll Data – 31 March 2018

4.1 Monthly summary: Gross pay
Please select from bar or line graph in 4.0 to limit data shown.

Year	Month	Total Gross pay	Avg Per Transaction	Number of transactions	% of Gross Pay	Nil Payments / Total	Monthly % Change
2017	abr	1.547.762,43	2.269	682	100,00 %	25/682	
	may	1.471.953,81	2.174	677	100,00 %	41/677	-4,90 %
	jun	1.470.484,17	2.178	675	100,00 %	29/675	-0,10 %
	jul	1.475.404,28	2.176	678	100,00 %	27/678	0,33 %
	ago	1.663.837,93	2.450	679	100,00 %	24/679	12,77 %
	sep	1.614.911,84	2.351	687	100,00 %	27/687	-2,94 %
	oct	1.545.636,96	2.253	686	100,00 %	48/686	-4,29 %
	nov	1.479.150,50	2.166	683	100,00 %	38/683	-4,30 %
	dic	1.456.172,23	2.132	683	100,00 %	48/683	-1,55 %
	2018	ene	1.450.199,13	2.123	683	100,00 %	43/683
feb		1.451.603,26	2.125	683	100,00 %	27/683	0,10 %
mar		1.488.308,08	2.179	683	100,00 %	42/683	2,53 %
Grand total		18.115.424,62	2.215	8.179	100,00 %	419/8179	0,00 %

What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay.

What are our conclusions?

We reviewed the information at our interim and final accounts visits. We reviewed anomalies in light of known additional costs arising from exit packages. We concluded from our work on employee costs that they were fairly stated.



9

Independence

Confirmation, relationships, services, related threats and safeguards



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 26 March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 26 July 2018.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

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

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	TBC	64,004	64,004	73,513
Total Non-audit work - Grants	TBC	10,911	10,911	10,344

We have undertaken additional work in relation to the Value For Money Conclusion significant risk, we are not yet in a position to quantify the costs associated with this work. We have yet to conclude our 2017/18 audit and are therefore not in a position to conclude on the final fee for 2017/18. We will discuss with the Chief Financial Officer our final fee at the conclusion of the audit. Where we propose any variation, we will discuss this with the Audit Committee and also is subject to PSAA approval.

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

10 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report March 2018
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	<p>Audit results report July 2018</p> <p>No conditions or events were identified, either individually or together to raise any doubt about Stevenage Borough's ability to continue for the 12 months from the date of our report.</p>
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 ▶ Material misstatements corrected by management 	<p>Audit results report July 2018</p>
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>Audit results report July 2018</p>
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Audit results report July 2018</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when 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 regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit results report July 2018
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of 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 about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report March 2018 Audit results report July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit results report July 2018 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. 	Audit results report July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report July 2018
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report July 2018
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report March 2018 Audit results report July 2018
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report To Follow - November

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

*Ernst & Young
400 Capability Green
Luton LU1 3LU*

This letter of representations is provided in connection with your audit of the financial statements of Stevenage Borough Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Stevenage Borough Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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 [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the 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 Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. 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 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].

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material

- penalties;
- involving management, or employees who have significant roles in internal controls, or others; or

in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
1. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
2. We have made available to you all minutes of the meetings of the Council and Executive 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:

Management representation letter

Management Rep Letter

- a. Council 23 May
- b. Executive 11 July
- c. Audit Committee 12 June.

1. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period 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 financial statements.
2. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
3. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the 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 28 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than as described in Note 6 to the financial statements, there have beenWe have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

F. Other information

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

G. Ownership of Assets

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

Management representation letter

Management Rep Letter

statements.

3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note 18 to the financial statements, we have no other line of credit arrangements.

H. Reserves

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

Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the value of property, plant and equipment, investment properties, the Council's pension liability and the business rates appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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.

J. Property Valuation and Business Rates Appeals Estimates

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 2017/18.
2. We confirm that the significant assumptions used in making the property valuation appropriately reflect our intent and ability to utilize these assets on behalf of the entity.

3. We confirm that the disclosures made in the 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 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

K. 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,

(Chief Financial Officer)

(Chairman of the Audit Committee)

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