



Stevenage Borough Council  
Audit results report

Year ended 31 March 2017

Private and Confidential

12 September 2017



Dear Audit Committee Members

We have substantially completed our audit of Stevenage Borough Council (the Authority) 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. For financial statements ending on or after 31 March 2018 the deadline will be 31 July. The deadline for the publication of draft financial statements will be 31 May which is a month earlier than applied for the 2016/17 financial statements. The Authority met this earlier deadline for the 2016/17 financial statements which indicates that the Authority is well placed to meet its obligation in this respect for 2017/18. We confirm that we expect to issue our audit opinion by the end of September 2017.

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

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

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

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Neil Harris  
Executive Director

For and on behalf of Ernst & Young LLP

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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](http://www.PSAA.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit Committee, other members of the Authority and management of Stevenage Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, other members of the Authority and management of 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, other members of the Authority 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 obtaining our written consent.



01

# Executive Summary



# Executive Summary

## Overview of the audit

### Scope and materiality

In our Audit Plan provided to the Audit Committee members for the 28 March 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 £2.2 million. We reassessed this using the actual results for the financial year and the materiality level decreased to £2.1 million. The threshold for reporting audit differences has decreased from £0.108 million to £0.105 million. 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.



## Executive Summary

### Executive summary (continued)

#### Status of the audit

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

- Agreement of fixed asset movement note entries to the fixed asset register
- Testing of journal entries
- Receipt of outstanding bank confirmations (Santander and Goldman Sachs)
- 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, and
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission.

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

#### Audit differences

We have set out below the errors above our threshold for reporting to Members that have been identified during the audit by management or by the audit team and whether these have been adjusted or not. All but one of these was in respect of the revaluation of general fund properties in 2016/17. We would point out that none of these errors affects the level of general fund balance held by the Council. This is because although Cipfa's Code of Practice on Local Government Accounting requires councils to reflect the value of assets used in the provision of services, and charge depreciation for their use, any revaluation gain or loss that occurs, together with any depreciation is removed when calculating the overall balance on the general fund.

The valuation of other land and buildings is an accounting estimate and as such will reflect a number of assumptions, for example likely remaining useful life, property condition etc, There is therefore an element of subjectivity involved in the estimate and a range of values is likely to be appropriate. The valuation of assets for financial reporting purposes will reflect their current use and does not represent necessarily the value for which an asset would be disposed. We would expect the Council to obtain a separate valuation ahead of any planned asset disposal so that it can ensure that it obtains best consideration.



# Executive Summary

## Audit differences (continued)

### Unadjusted misstatement identified by management (actual)

During the audit the Finance team identified a transaction in respect of funding from the Local Enterprise Partnership of £0.4 million that had been omitted in error from the financial statements.

### Unadjusted misstatements identified by the audit team (actual)

Two unadjusted misstatements were identified by the audit team both in respect of other land and buildings:

- Ridlins Athletic Track (£4.4 million overstated due to incorrect valuation) and
- BTEC (£3.6 million understated as it was omitted in error from asset register).

These two adjustments net to an overstatement of £0.8 million.

We have included all these items as unadjusted audit differences as management has chosen not to adjust for them. We ask that they be corrected or a rationale as to why they have not been corrected be approved by the Audit Committee and included in the Letter of Representation. We agree with management's assessment that the impact overall is not material. None of the adjustments would affect the Council's general fund balance.

### Unadjusted misstatement (projected)

We identified a projected misstatement in respect of community centres and pavilions which were valued on existing use basis rather than on a depreciated replacement cost basis. Our EY estates valuer reviewed the valuations for a community centre and a pavilion and in their view they considered that the valuation provided by WHE was £123,000 understated, if applied across all similar assets we calculate that the impact could be potentially £3.4 million. We assess that the impact of this is not material given the Council's total for property, plant and equipment on the balance sheet at 31 March 2017 of £716 million but report it here for Members' information.

### Adjusted misstatement

Land with a value of £3.8 million for two assets was omitted in error from the asset register although the related buildings have been correctly recorded. Management has chosen to adjust for this error so that the assets concerned are shown at their full value.

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



## Executive Summary

### Executive summary (continued)

#### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Stevenage Borough 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; 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 Audit Committee.

#### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

In our Audit Plan we identified the following significant risk:

- Sustainable resource deployment: Achievement of savings needed over the medium term.

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





## Executive Summary

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### Executive summary (continued)

#### Other reporting issues

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

We are yet to complete our work on the Whole of Government Accounts (WGA) return. We are currently planning to complete this prior to 22 September 2017.

We have no other matters to report.

#### Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls

#### Independence

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





# 02 Areas of Audit Focus





## Areas of Audit Focus

# 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 Authority's normal course of business.

#### What is the risk?

Risk of management override

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.

 Significant Risk

#### What did we do?

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

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for significant unusual transactions
- We tested a sample of accruals, prepayments and provisions to check whether they had been recorded at an appropriate value
- We undertook cut off testing for income and expenditure to ensure that material amounts had not been omitted from the financial statements that related to 2016/17.



# Areas of Audit Focus

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## 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 and specific issue identified at this year's audit 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 £3.8 million at 31 March 2017, the largest being the business rates appeal provision at £2.9 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- these were £3.6 million covering both revenue and capital accruals. Our testing of accruals did not identify any significant issues.
- Manual debtors (£4.6 million) our testing did not identify any significant issues.

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



## 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 Hertfordshire 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 £55 million (£45 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 Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to North Hertfordshire District 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. Our assessment uses the work of the EY actuarial team who review the work of the PWC - Consulting Actuaries; 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 4 to the financial statements, and in Note 29, pension schemes.



## Areas of Audit Focus

# Audit issues and approach: Property, Plant and Equipment Valuations

### Property, Plant and Equipment Valuations

#### What are our conclusions?

Management has agreed that one asset was overvalued by the external valuer (Ridlins athletics track) by £4.4 million. Our testing of the revaluation movements in year found a further error in the processing of the revaluation for BTEC which resulted in a nil book value being shown on the asset register instead of £3.6 million. The net impact of the two issues is an overstatement of £0.8 million. For two further assets the building valuation was correctly recorded on the asset register but the land was not, this has been corrected by management (£3.8 million).

#### What is the risk?

Property, plant and equipment valuations

Property, Plant and Equipment (PPE) represents a material item on the Council's balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use). This is carried out by an expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

The Narrative Statement in the draft financial statements referred to a significant change in estimation technique. The Council's new external valuer has undertaken a valuation as at 31 March 2017 for the Council's general fund assets. A number of community assets previously valued on depreciated replacement cost basis are now valued on existing use value. This has resulted in some material movements in asset values downwards. The value of downward revaluations in total shown in the draft financial statements was approximately £21 million however due to the way that local government capital accounting transactions are processed there is no overall impact on the Council's usable reserves.

In view of the material change we instructed our own specialist team to review a sample of the valuations.

 Significant Risk

#### What did we do?

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

- Procedures to ensure we are able to rely on management's valuation experts;
- Challenging the key assumptions made by the experts;
- Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairments.



## Areas of Audit Focus

# Audit issues and approach: Property, plant and equipment valuations

### Further details on procedures/work performed

The Council engages two external expert valuers, one for the valuation of the housing revenue account dwelling stock and a second valuer to value the Council's general fund properties. Our significant risk was focused on the general fund valuations where the largest valuation changes occurred.

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', 'Investment Properties' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

### Methodology

Our approach has focused on reviewing the methodology applied by the Council's expert Wilks Head Eve LLP (WHE) particularly in respect of assets valued using the basis of depreciated replacement cost as this valuation basis requires assumptions to be made in a number of areas which can significantly affect the valuation. The issues identified by our internal expert specialist who we commissioned to review the methodology were:

- WHE include professional fees in their valuation as expected, and this has been done at a rate of 15%. However the value for fees is calculated based on the gross replacement cost of the building rather than the depreciated replacement cost. Our internal expert considers that this is not a correct interpretation of RICS guidance, their view is that the gross replacement cost is calculated first, then the obsolescence factor applied and then professional fees are calculated on the net value. We calculated that if the fees had been included on this basis the valuation would have been reduced by £1.85 million;
- WHE calculated obsolescence on the basis of none in the first 10 years and then 1% a year with a cap at 50% as per their report. This was applied across the valuations with some exceptions (six out of 19 assets had obsolescence applied within first 10 years or within 10 years of refurbishment). Our internal expert's view is that the obsolescence should be considered in the light of each asset's remaining useful life, condition/state of repair and that not applying obsolescence in the first 10 years tends to overstate the asset's value. They also did not consider it appropriate that obsolescence was capped at 50%. We calculated the impact on the valuation of not applying obsolescence within the first 10 years and also removed the 50% cap, our calculation indicated that the valuations were £3.2 million higher under the WHE approach than they would otherwise have been. We calculate that an extra 1% across the assets gives rise to reduces the valuation by approximately £0.3 million
- WHE calculate the underlying land values for the buildings based on a percentage of the gross replacement cost (which reflects the build cost of the asset). Our internal expert's view is that this approach is not appropriate. A similar type building both in Stevenage and in the north of the country would have a similar land value attributed to it even though the value of land in the two locations is likely to be significantly different. In their view the valuation should consider the local market. We asked our specialist to review the land values for a sample of assets to consider what the impact was of the WHE methodology.

### Review of sample of asset valuations

We asked our internal expert to review 11 of the valuations provided by WHE, one of which was for an investment property. We covered assets valued on a depreciated replacement cost basis (3), existing use value (7) and fair value basis (the investment property). The investment property was deemed to be within the acceptable range for its valuation. Of the 10 valuations for other land and buildings our internal expert considered that 5 were within the range that they would expect to see.



## Areas of Audit Focus

# Audit issues and approach: Property, plant and equipment valuations

### Further details on procedures/work performed

The Ridlins athletic track with a value of £5.9 million excluding the stand was considered by them to be well above the range of valuation that they would expect for an asset of this nature and this has been referred to management in order to understand the background to the assumptions adopted. The specific concerns raised by our specialist were:

- ▶ Information from Sports England suggest a gross replacement cost of between £0.7 million and £1.5 million for a facility of this nature.
- ▶ The Council's valuation allows for 6% depreciation from 2010 (when the track was refurbished). Our specialist's research indicates that synthetic tracks have a useful life of 20 to 30 years, they suggest that this indicates a remaining useful life to 23 to 30 years and that therefore the depreciation applied to date should be closer to 23% to 35% rather than the 6% that has been applied.
- ▶ Land has been included based on 15% of the gross replacement cost of the asset at £0.8 million rather than considering the local land market. Using amenity land values of £25,000 to £50,000 per acre our specialist considers that the value of the land is within the range £119,000 to £238,000.
- ▶ Also included in the valuation is 2.19 acres of excess land which we believe includes the area within the track which as it includes things such as the shot put circle should be considered part of the facility and not excess land.

The other assets that were outside of our expected range were all below the range. This included a community centre and a pavilion of which Stevenage Borough Council has several of each type. These were valued using existing use valuation basis (EUV), however our expert does not consider that there is sufficient market information to use this basis. They suggested that a depreciated replacement cost (DRC) valuation basis would have been more appropriate. We calculated what the likely impact would be of the undervaluation for these assets if applied to others of similar type, on an extrapolated basis, this gave an under valuation of £3.4 million. It should be noted that the move to using EUV rather than DRC is a large factor behind the valuation reductions shown in the financial statements.

When we take the impact of the over and under valuations on our sample the difference is not material however we are concerned that there are a number of compensating movements which are material and it has required significant input from a specialist and the audit team to arrive at the position where we have sufficient assurance that the valuation figures used in the financial statements are within an acceptable range of estimation uncertainty.





## Areas of Audit Focus

# Audit issues and approach: Property, plant and equipment valuations

### Further details on procedures/work performed

We have requested that consideration be given to expanding the note to the financial statements that refers to estimation uncertainty, as it needs to reflect on key assumptions made as part of the valuation process.

We discussed our findings with management and they requested that WHE review their valuation of the athletics track of £5.9 million, this has been done and they have confirmed that there was an error made in the valuation. Management are of the view that the asset was overstated by £4.4 million. WHE have reviewed their other valuations at management's request and confirmed that no other changes are required. Management have considered what are the implications for the prior year asset value for the athletics track. The value in the prior year was £5.1 million, the valuation used residential rather than amenity land values. The nature of the site is that it is bounded by residential development and that either valuation basis could be appropriate. Management have concluded therefore that no amendment is required in respect of the prior year valuation.

### Asset information upload to the asset register

We found three errors in the way that the asset valuation information from WHE has been uploaded to the Council's asset register:

- ▶ BTEC asset was written down to nil net book value on the system when it should have been included at a value of £3.6 million, this has been included in our summary of unadjusted differences;
- ▶ The land element of the valuation for Daneshill House and Cavendish Depot at £3.8 million was excluded in error from the valuation although the buildings themselves were correctly reflected, management have decided to amend for this error so that the full asset value is reflected on the register.



## Audit issues and approach: Presentation of the Financial Statements

### Expenditure and Funding Analysis

#### What are our conclusions?

Our testing performed has not identified any material misstatements in the 2016/17 statement of accounts. We suggested that the note be expanded to make it clear how it links to the note which shows the adjustments between the accounting and funding basis under the regulations.

#### What is the risk?

Presentation of the financial statements

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

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement, and include the introduction of a 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 Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code requires a new structure for the primary statements, new notes and full retrospective restatement of comparatives. Our Audit Plan recorded that this restatement would require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

#### What did we do?

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

- Reviewing the expenditure and funding analysis, CIES and new disclosure notes to ensure disclosures are in line with the Code;
- Reviewing the analysis of how these figures are derived, and how the ledger system has been re-mapped to reflect the Council's organisational structure, and
- Agreeing restated comparatives figures to the Council's segmental analysis and supporting working papers.



# 03 Audit Report



## Draft audit report

### Our opinion on the financial statements

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

We have audited the financial statements of Stevenage Borough Council for the year ended 31 March 2017 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, the Collection Fund, the related notes 1 to 34.

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 and the Expenditure and Funding Analysis.

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.



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

Respective responsibilities of the Assistant Director (Finance and Estates) (Chief Financial Officer) and auditor

As explained more fully in the Statement of the Assistant Director (Finance and Estates) (Chief Financial Officer)'s Responsibilities set out on page 23, the Assistant Director (Finance and Estates) (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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director (Finance and Estates) (Chief Financial Officer); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2016/17 Financial Report including Statement of Accounts 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 Stevenage Borough Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

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



# Audit Report

## 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 Stevenage Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

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

### **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.



# Audit Report

## Our opinion on the financial statements

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the 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 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the 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, 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 2017.

### **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.



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 £105,200 relating to Stevenage Borough Council in our summary of misstatements table below. The amount shown was identified as an error by the Council's Finance team.

At the time of writing this report there is one corrected misstatements that we wish to bring to your attention, we identified during the audit that £3.8 million of land was omitted when the Daneshill House and Cavendish Road depot assets were uploaded on to the asset register. This adjustment has now been made and increases the asset value on the balance sheet and the value shown in the revaluation reserve. 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.



# Audit Differences

## Summary of unadjusted differences

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

Accounts affected 31 March 2017 (£'000)	Comprehensive income and expenditure statement Debit/(Credit) Current Period £000	Assets current Debit/(Credit) £000	Assets non- current Debit/(Credit) £000	Liabilities current Debit/(Credit) £000	Liabilities non-current Debit/(Credit) £000	Reserves £000
Error: Non inclusion of LEP capital funding which is repayable in long term						
Debtor due from LEP		416				
Capital grants unapplied						-416
Capital adjustment account						416
Creditor for repayment					-416	
Error: Omission of BTEC from asset register						
Other land and buildings			3,624			
Comprehensive income and expenditure account, reversed to Capital adjustment account						-3,387
Revaluation reserve						-237
Error: Ridlins athletic track overstated						
Other land and buildings			-4,410			
Revaluation reserve						4,410



## Audit Differences

Accounts affected 31 March 2017 (£'000)	Comprehensive income and expenditure statement Debit/(Credit) Current Period £000	Assets current Debit/(Credit) £000	Assets non- current Debit/(Credit) £000	Liabilities current Debit/(Credit) £000	Liabilities non-current Debit/(Credit) £000	Reserves £000
Balance sheet totals						
Income effect of uncorrected misstatements	0	416	-786		-416	786

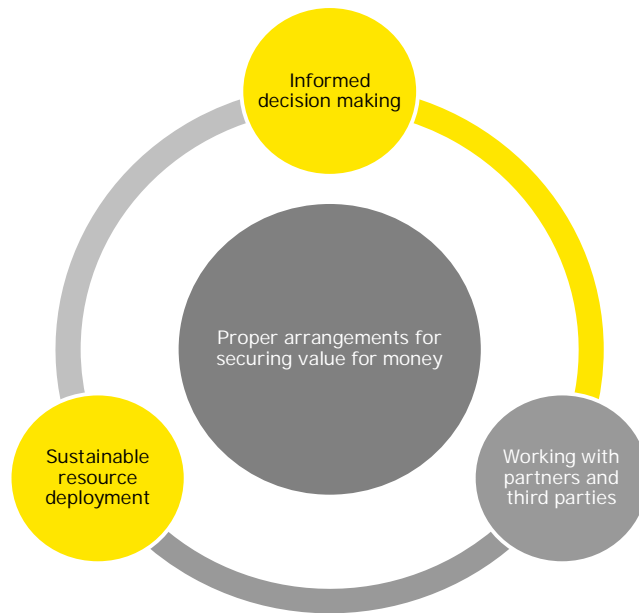
We identified a projected misstatement in respect of community centres and pavilions which were valued on existing use basis rather than on a depreciated replacement cost basis. Our EY estates valuer reviewed the valuations for a community centre and a pavilion and in their view they considered that the valuation provided by WHE was £123,000 understated, if applied across all similar assets we calculate that the impact could be potentially £3.4 million. We assess that the impact of this is not material given the Council's total for property, plant and equipment on the balance sheet at 31 March 2017 of £716 million but report it here for Members' information.



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 a significant risk around these arrangements. The table below presents our findings in response to the risks in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention.

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



# Value for Money

## VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as: *“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

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

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

What is the significant VFM risk?	Arrangements this impacts?	What are our findings?
<p>Sustainable resource deployment: Financial resilience – achievement of savings needed over the medium term</p> <p>The Council has continued to respond well to the financial pressures on local government arising from the economic downturn and reductions in the level of central government funding. We commented positively on the Council’s arrangements in our 2015-2016 Annual Audit Letter and Audit Results Report. The Council are also forecasting a balanced budget for the current financial year.</p> <p>There remains, however, significant financial pressure on the Council’s medium to longer term financial plans. To secure its medium to longer term sustainability, the Council will need to balance its budget, not just by exploring and achieving more challenging savings and efficiency targets, but by also becoming more self-sufficient in generating income. This will see the Council increasingly look to partnerships, collaboration and commercial development activities to achieve its future financial targets.</p>	<ul style="list-style-type: none"> <li>• Taking informed decisions</li> <li>• Deploying resources in a sustainable manner</li> </ul>	<p>We have undertaken the procedures as set out in our audit strategy which have focused on:</p> <ul style="list-style-type: none"> <li>• The adequacy of the Council’s budget setting process and the robustness of any assumptions.</li> <li>• The effective use of scenario planning to assist the budget setting process.</li> <li>• The effectiveness of in year monitoring against the budget.</li> <li>• The Council’s approach to prioritising resources whilst maintaining services, including a focus on partnership arrangements and asset utilisation.</li> </ul> <p>The Council has a strong history of delivering saving targets, and a highly experienced management team. It has taken effective steps to address future budget gaps. The approach takes a prudent approach to variable income streams such as the New Homes Bonus with only £0.2 million being built into the baseline budget.</p> <p>In 2016/17 the Council continued its strong performance against budget, with underspends against the general fund budget (£638,000) and the housing revenue account (£437,000). The general fund balance stands at £6.4 million as at 31 March 2017.</p> <p>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.</p> <p>The cumulative budget gap is now estimate by officers to be £2.86 million.. Compared to a gross expenditure of approximately £107m per annum, we judge this to be a manageable budget gap.</p>



06

## Other reporting issues



## Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Stevenage Borough Council Statement of Accounts 2016/17 with the audited financial statements

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

Our findings are:

- Financial information within the Narrative Statement published with the financial statements was consistent with the Annual Accounts.
- The Annual Governance Statement 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.

We are yet to complete our work on the Whole of Government Accounts (WGA) return. We are planning to submit the assurance report to the NAO at the same time as we give our audit opinion.

Once completed we will report any matters arising to the Audit Committee.





## Other reporting issues

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

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

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

Whilst we recommended a number of changes to disclosures in the draft financial statements these were generally of a good quality. We are aware that there have been vacancies in the Finance team including the role of capital accountant in year which increased pressure on the rest of the team and has resulted in some delays in responding to queries.

We have utilised our own internal specialists to review property valuations, this is a change in the scope of our audit and was triggered by the identification of a significant risk re property valuation.



07

## Assessment of Control Environment



# Assessment of Control Environment

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## Assessment of control environment

### Financial controls

It is the responsibility of the 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 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.

A close-up photograph of a person's hand sorting through a filing cabinet. The hand is reaching into a drawer filled with numerous manila-colored folders, each containing stacks of papers. The background shows the metal shelves of the cabinet.


# 08 Appendices




# Appendix A

## Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

 Our Reporting to you

Required communications	What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	January 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> </ul>	September 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Stevenage Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Significant corrected misstatements, in writing</li> </ul>	September 2017 Audit Results Report



# Appendix A



## Our Reporting to you



## When and where

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	September 2017 Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	At the time of writing this report we are awaiting some external confirmations in relation to cash. We will provide you with an update at the Audit 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"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off”</li> <li>▶ Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY’s objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information on the firm’s general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.</p>	January 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>	January 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 dated 17 January 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 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 21 September 2017.

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

	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee - Code work (Note 1)	64,004	64,004	64,004
Total audit fee - Certification of claims and returns (Note 2)	12,857	12,857	10,911

Note 1: The table above shows the planned fee as per our audit plan issued on 17 January 2017. We have incurred additional costs in respect of the input from the EY estates specialist in reviewing the methodology applied to the valuation of a sample of assets and time from the audit team in facilitating and reviewing this work. We also incurred some additional audit time due to delays in responses to queries. We will be discussing the position with your Assistant Director (Finance and Estates) (Chief Financial Officer). Any additional fee also has to be agreed with Public Service Audit Appointments Limited (PSAA).

Note 2: The fee for the certification of the housing subsidy return for 2016/17 is expected to be lower than the amount shown above as subsequent to our audit plan we agreed with the housing benefits service provider that they would perform the initial testing required for us to review. Any return of fee must also be agreed with PSAA.

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







## Appendix C

# Accounting and regulatory update

### Accounting update

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

Name	Summary of key measures	Impact on Stevenage Borough 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>



## Appendix C

*Earlier deadline for production and audit of the financial statements from 2017/18*

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.

The Council has implemented a dry-run for 2016/17 and met the earlier deadline.

The change to the deadlines provide challenges for both the preparers and the auditors of the financial statements.

We recognise that generally the working papers prepared for the audit are of a good standard although we will have some suggestions for how they could be further improved for next year as we see a 'step' change being required in terms of the quality and content of working papers for many of our authorities. We noted that there was pressure on the Finance team during our audit and that some query responses were therefore delayed. Given the pressure on auditors to complete audits within a more compressed timescale the co-operation from authorities in preparing clear working papers, analytics data and prompt responses to queries will be vital.

As auditors, nationally we have:

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

Locally we have:

- Set up a forum in October for chief accountants to meet with us to share ideas on how procedures can be streamlined.

We look forward to continuing this productive working relation in 2017/18. 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.



## Appendix C

### Management Rep Letter

Ernst & Young  
400 Capability Green  
Luton  
LU1 3LU

Dear Sirs

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 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 financial statements give a true and fair view of the Council financial position of Stevenage Borough Council as of 31 March 2017 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 2016/17

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:



## Appendix C

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### A. Financial Statements and Financial Records

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 2016/17.

1. 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 2016/17. We have approved the financial statements.
2. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
3. 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 2016/17, that are free from material misstatement, whether due to fraud or error.
4. 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 \[specify reasons for not correcting misstatement\].](#)

### 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 financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the 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 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 financial statements or otherwise affect the financial reporting of the 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 financial statements.



## Appendix C

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### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (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:
  - a. Council 11 July 2017
  - b. Executive 8 August 2017
  - c. Audit 6 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 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.
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 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.

### **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 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.



## Appendix C

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3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 31 to the financial statements all guarantees that we have given to third parties.

### **F. Subsequent Events**

1. Other than as described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### **G. 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.

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

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, Investment Properties, NDR appeals and Pension Liabilities 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.

### **I. 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 2016/17.
2. We confirm that the significant assumptions used in making the valuation of Property estimate appropriately reflects 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 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### **J. Retirement benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and



## Appendix C

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properly accounted for.

### **Expenditure Funding Analysis**

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

Yours faithfully,

\_\_\_\_\_  
Assistant Director (Finance and Estates) (Chief Financial Officer)

\_\_\_\_\_  
Chair of the Audit Committee

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ED None

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