

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

July 2018



30 July 2018

Dear Licensing and General Purposes Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Licensing and General Purposes Committee. This report summarises our preliminary audit conclusion in relation to the audit of Rushmoor Borough Council for 2017/18.

We have substantially completed our audit of Rushmoor Borough Council (the Authority) 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 at 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 Licensing and General Purposes 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 Licensing and General Purposes Committee meeting on 30 July 2018.

Yours faithfully

Andrew Britain

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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 Licensing and General Purposes Committee and management of Rushmoor Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Licensing and General Purposes Committee, and management of Rushmoor 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 Licensing and General Purposes Committee and management Rushmoor 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 presented at the 29 January 2018 Licensing and General Purposes 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, with the following exceptions:

- ▶ Changes in materiality: We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.321m (Audit Planning Report – £1.325m).
- ▶ This results in updated performance materiality, at 75% of overall materiality, of £0.990m, (Audit Planning Report - £0.994m) and an updated threshold for reporting misstatements of £0.066m. (Audit Planning Report - £0.066m)

## Status of the audit

We have substantially completed our audit of Rushmoor 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:

- ▶ Review of the revised Note 38: Leases and Note 37: Capital expenditure and Capital Financing;
- ▶ Post balance sheet event procedure;
- ▶ Review of final statement of accounts
- ▶ Receipt of the signed management representation letter (see Appendix B)

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

# Executive Summary

## Audit differences

At the time of writing we have identified one unadjusted audit difference of £426,487 in the draft financial statements, which is due to the timing difference in the Hampshire Pension Fund asset valuations.

There were no adjusted audit differences, however there were a number of disclosure amendments made as a result of the audit.

Until our work is complete, further amendments may arise.

We will update the Committee should any further adjustments arise from our remaining work.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Rushmoor Borough Council's financial statements. This report sets out our observations and conclusions, including our views, if any, 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 did not identify any new key areas of focus since the Audit Planning Report.

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

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

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

## Control observations

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



# Executive Summary

## 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 two significant risks in this regard.

- Delivery of a sustainable medium term financial plan;
- Effectiveness of risk management.

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

## Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The Council is below the anticipated testing threshold set by the NAO and therefore we expect no issues.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence.



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## Areas of Audit Focus

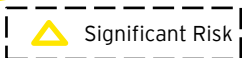




## Areas of Audit Focus

# Significant risk

### Risk of fraud in revenue and expenditure recognition



#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Having assessed the key income and expenditure streams of the Council, we judged that there was a risk of material misstatement through the incorrect classification of revenue spend as capital expenditure.

#### What judgements are we focused on?

We focused on:

- ▶ Understanding the controls put in place by management relevant to this significant risk
- ▶ Considering whether or not purchase invoices were being inappropriately classified as capital
- ▶ Whether management were inappropriately processing journals that transferred amounts from revenue to capital

#### What did we do?

- ▶ Review and test revenue and expenditure recognition policies and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- ▶ Develop a testing strategy to test material revenue and expenditure streams and review and test revenue cut-off at the period end date.
- ▶ Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature.
- ▶ Amended our sample sizes when testing additions and REFCUS to reflect the existence of this risk. Agreed samples to source documentation to ensure the capital/revenue split was reasonable.
- ▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.
- ▶ Review in-year financial projections and compare to year-end position.

#### What are our conclusions?

Our testing identified no misstatements from revenue and expenditure recognition.

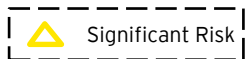
We did not identify any other transactions during our audit which appeared to be misstated, material or otherwise.



# 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 judgements are we focused on?

We focused on the following:

- ▶ Understanding the risks of fraud and the controls put in place to address those risks by management and how the Licensing and General Purposes Committee oversees management's processes over fraud.
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

#### What did we do?

- ▶ Wrote to the s151 officer, Chair of the Licensing and General Purposes Committee, Head of Internal Audit and the Monitoring Officer in this regard and reviewed their responses.
- ▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed.
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- ▶ Reviewed accounting estimates eg NDR Appeals Provision and PPE Valuation for evidence of management bias.
- ▶ Evaluated the business rationale for any significant unusual transactions.

#### 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 .

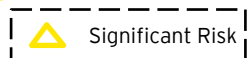
We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business



## Areas of Audit Focus

### Significant risk

#### Property, Plant and Equipment Valuation



#### What is the risk?

Material misstatement of the net assets of the Authority as a result of inappropriate judgemental inputs and/or estimation techniques to calculate the year-end balances recorded in the balance sheet.

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

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.

#### 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:

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

#### What did we do?

- ▶ 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 covering the reasonableness of their underlying assumptions.
- ▶ Sample tested key asset information used by the valuers in performing their valuation.
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered if there were any specific changes to assets that had occurred and that these had been communicated to the valuer.
- ▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- ▶ Considered changes to useful economic lives as a result of the most recent valuation.
- ▶ Tested accounting entries had been correctly processed in the financial statements.

#### What are our conclusions?

Our testing has identified no material misstatements from inappropriate judgements being applied to the property valuation estimates.

We did not identify any other assets during our audit which appeared to be misstated, material or otherwise.



## Areas of Audit Focus

### Other areas of audit focus

#### Pension Liability Valuation

##### What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

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. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

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.

##### 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, AON Hewitt; and
- ▶ the assessments of the actuary undertaken by PWC and the EY actuarial team.

##### What did we do?

- ▶ Liaised with the auditors of the administering authority (Hampshire County Council), to obtain assurances over the information supplied to the actuary in relation to Rushmoor Borough Council.
- ▶ Assessed the work of the Pension Fund actuary, AON Hewitt, including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- ▶ Ensured the information supplied to the actuary in relation to Rushmoor Borough Council was complete and accurate.
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

##### What are our conclusions?

We have reviewed the reports from the Hampshire Pension Auditor.

Our testing to date has not identified any material misstatements of the Authority's liability or related disclosures in this regard.

However we have identified one immaterial unadjusted item of £426,487 which relates the Council's share of the variance between the estimated fair value of £6,582 million of the pension fund assets and the actual fair value of the pension fund assets which was found to be higher at £6,613 million.



# 03 Audit Report



## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO RUSHMOOR BOROUGH COUNCIL

##### Opinion

We have audited the financial statements of Rushmoor 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;
- The related notes to the Core Financial statements 1 to 41;
- Collection Fund and the related notes 1 to 3

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

In our opinion the financial statements:

- give a true and fair view of the financial position of Rushmoor 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.

##### 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 Council 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.

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

##### 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 Rushmoor Borough Council'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

## Draft audit report

### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the Statement of Accounts 2017/18, 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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, the Rushmoor 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 entity;
- 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



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Responsibilities of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 14, 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 Rushmoor Borough Council'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 Rushmoor Borough Council either intends to cease operations, or have no realistic alternative but to do so.

Rushmoor Borough Council 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 Rushmoor Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rushmoor Borough 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, Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that Rushmoor Borough Council 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 Rushmoor Borough Council 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 Rushmoor Borough Council'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 Rushmoor 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.

### Use of our report

This report is made solely to the Members of Rushmoor 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 Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Brittain, (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
31 July 2018

The maintenance and integrity of the Rushmoor 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 unadjusted differences

At the time of writing we identified one immaterial unadjusted item of £426,487 which relates the Council's share of the variance between the estimated fair value of £6,582 million of the pension fund assets and the actual fair value of the pension fund assets, at 31 March 2018, which was found to be higher at £6,613 million.

## Summary of adjusted differences

We have not identified any adjusted differences or misstatements that merit bringing to the attention of the Committee.

We will also update the Committee if there are any further issues arising from our incomplete audit procedures.

## Disclosure amendments

We identified the following disclosure issues which were amended as a result of the audit:

- **Note 33 - Exit packages:** Prior year number of compulsory redundancies for exit packages between £0 - £20,000 was amended from 0 to 2.
- **Note 38: Leases:** During the course of the audit, officers told us that this disclosure note was incomplete as the “Council as Lessee” lease with Serco, a new £3.4 million finance lease in 2017/18 was not disclosed. This has also impacted on the Capital Financing Reserve which is in **Note 37: Capital Expenditure and Capital Financing**. There was no impact on the balance sheet as the assets and liabilities of this lease had been correctly accounted for.

We will also update the Committee if there are any further issues arising from our incomplete audit procedures.



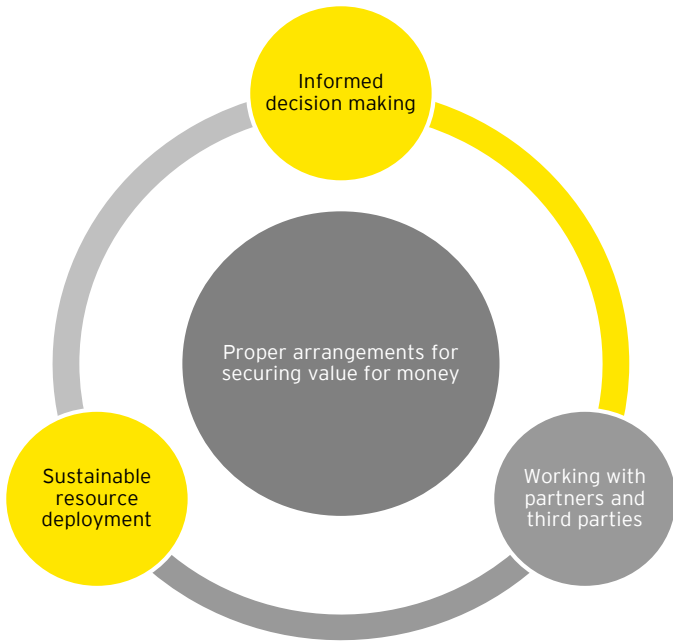
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# Value for Money Risks





# 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 significant risks relating to delivery of a sustainable medium term financial strategy and the effectiveness of the Council's risk management framework. We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

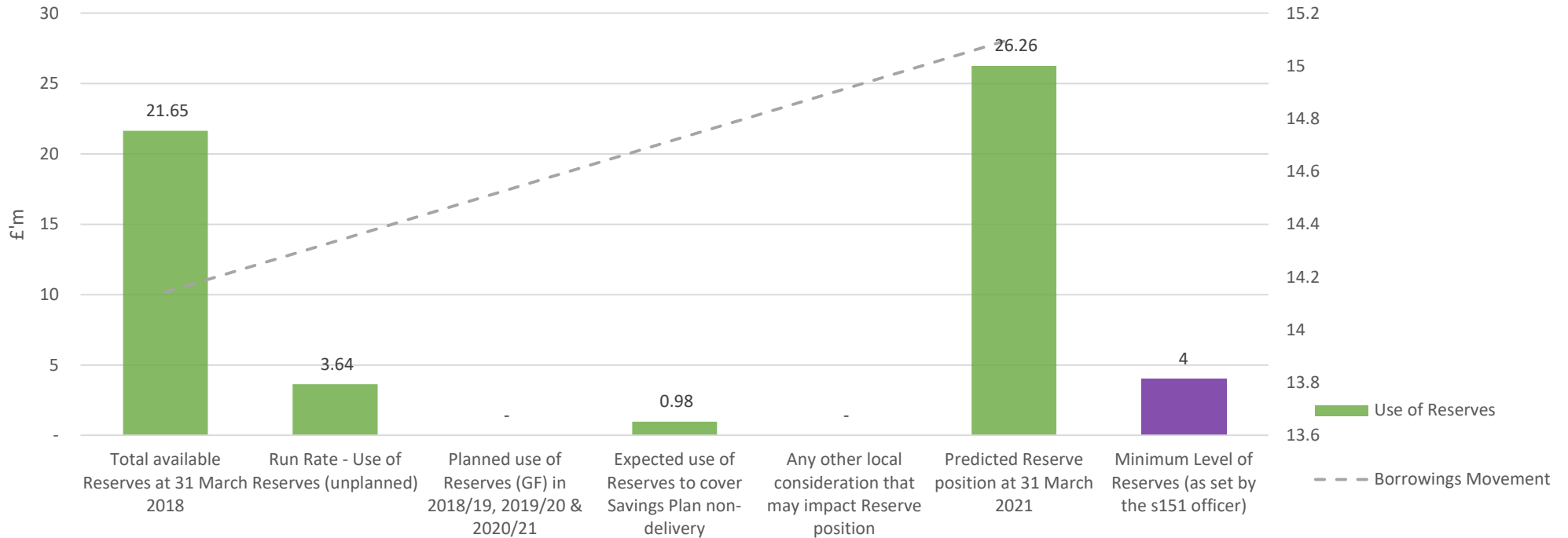
## Significant risk: Delivery of a sustainable medium term financial strategy

As reported to you in our audit plan, on 29 January 2018, the Council's "Medium Term Financial Strategy 2017/18 to 2020/21", presented to Council in October 2017, sets the context for the Council Plan, including its "8 point plan" which is the Council's delivery mechanism for financial sustainability. The MTFs recognises the key risks and considerations around financial planning including cuts in government funding, fluctuations in income through the business rates retention scheme, uncertainties around the New Homes Bonus, increasing revenue cost of borrowing and the achievement efficiency savings required through transformational change. Transformational change is required to deliver the level of savings needed for a sustainable financial future. The Council has a projected funding gap of £2.2 million by 2020/21, but this is after its use of £1.6 million of the Council's Stability and Resilience Reserve and £500k of General Fund balances. We need to review the Council's Medium Term Financial Strategy to assess whether the financial planning in place is sufficient to position the Council on a sustainable financial footing in the medium term.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<ul style="list-style-type: none"> <li>Reviewing the progress made in achieving the planned budgets for 2017/18.</li> </ul>	<ul style="list-style-type: none"> <li>Taking informed decisions</li> <li>Deploying resources in a sustainable manner</li> </ul>	<p>At 31 March 2018, the Authority reported an underspend against a forecast net expenditure budget of £12.094 million. In March 2017 the Authority approved the 2017/18 net expenditure budget, which included the budgeted use of reserves. The revised outturn and the over achievement of savings meant that use of reserves was limited to £0.688 million in 2017/18. However, the Council realises that the ongoing use of reserves each year is not sustainable, as reported in the LGA Peer Review Report of December 2017 and is therefore building up its reserves, to include a General Fund reserve of £11.825 million, including a Stability and Resilience reserve of £4.353 million.</p>
<ul style="list-style-type: none"> <li>Assessment of whether the Authority has good systems and processes in place to manage its financial risks and opportunities effectively</li> </ul>	<ul style="list-style-type: none"> <li>Taking informed decisions</li> <li>Deploying resources in a sustainable manner</li> </ul>	<p>The Council had appropriate processes for setting its 2017/18 and 2018/19 budgets. Budget assumptions are reasonable, although these are best estimates as there still are many uncertainties, particularly surrounding the impact of the new arrangements with Business Rates, the New Homes Bonus and the continuing uncertain economic climate. In terms managing its financial risks and opportunities effectively, our review has shown that the Council are improving its systems and processes in response to the two LGA Peer Review (December 2017) recommendations:</p> <ul style="list-style-type: none"> <li><i>Develop and communicate a wider understanding of the underlying financial challenges now facing the Council, including more regular monitoring and vigorous challenge to significant or high risk budgets; and</i></li> <li><i>Secure and deliver additional savings and income generation to reduce the use of reserves to produce a balanced budget over the coming years and move to a risk based assessment of the level of required reserves.</i></li> </ul>
<ul style="list-style-type: none"> <li>Assessing the robustness of financial plans for 2018/19 and in the medium term.</li> </ul>	<ul style="list-style-type: none"> <li>Taking informed decisions</li> <li>Deploying resources in a sustainable manner</li> </ul>	<p>The Council's Medium Term Financial Planning process is reported, each February, to Council. The figures in the plan can be agreed to detailed working papers with reasonable assumptions. The Council is currently updating its forecast and has identified savings of £1.5 million for 2018/19. Reserves are adequate, at the end of 2017/18, as General Fund reserves were £11.825 million. However, as the LGA Peer Review (December 2017) discusses, there are increased financial pressures in future years and the current level of reserves should be set aside to prepare for those future pressures without being used to supplement annual revenue expenditure. The Council has taken this advice on board as the Council now no longer withdraws from reserves and they have a set of identified savings for the next three years from 2018/19 to 2020/21 based on the Council's modernisation and transformation programmes.</p>



## Assessment of Reserves Position to 2021



### Our Assessment

In our assessment we considered, the Council's:

- level of savings requirement to balance the General Fund budget in each of the next 3 years;
- planned use of reserves to support the General Fund budget in each of the next 3 years;
- history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- 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 significantly higher than the Authority's approved minimum level.



## Significant risk: The effectiveness of the Council's risk management framework

The Council's Risk management framework was identified as a significant governance issue in both the 2015/16 and the 2016/17 Annual Governance Statements. In 2017/18, the Council has been updating the Corporate Risk Register, risk policies and practice through its re-invigoration of the Risk Management Group so that it may better embed risk management and align it to risks around the delivery of its strategic objectives in the Council Plan and its "8 point plan".

Our review of the Council's Licensing and General Purposes (L&GP) Committee during 2016/17 showed that the Committee could be more effective if it followed CIPFA's best practice guidance for Audit Committees which includes (1) an agreed work programme for the year, (2) regular risk management updates, (3) self-assessment of its effectiveness and (4) a production of an annual report of its achievements for Cabinet. As the L&GP Committee is a key component of Council's assurance over its risk management arrangements and will be receiving its first risk update report at its January 2018 meeting, We will follow-up on the above issues as part of our VFM work for this year.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<ul style="list-style-type: none"> <li>Review of the adequacy of the Council's risk management arrangements underpinning the Council's 2017/18 Annual Governance Statement.</li> </ul>	<ul style="list-style-type: none"> <li>Taking informed decisions</li> </ul>	<p>The Council Risk Council's Risk management framework has been transformed during 2017/18 with a monthly corporate Risk Management Group regularly assessing the Council's comprehensive corporate risk register. As the Council is taking its modernisation and transformation programme forward, the LGA Peer Review Report of December 2017 stated that <i>"as the Council looks toward the future and its priorities it would be timely to review its strategic risks, indeed this would inform both priority setting and financial planning. These risks would concern both the delivery of key outcomes and financial uncertainties."</i> The Council is in the process of embedding better risk management through its planning and reporting processes for its two main steering groups, the Transformation Steering Group which is morphing into the Modernisation Rushmoor 2020 Programme and the Regeneration Steering Group. In line with good practice, the Council's Licensing and General Purpose Committee (L&amp;GP Committee) also receives regular reports on the effectiveness of the Council's risk management arrangements during the year.</p>
<ul style="list-style-type: none"> <li>Assess the progress made by the L&amp;GP Committee in aligning its practices to CIPFA's guidance for Audit Committees</li> </ul>	<ul style="list-style-type: none"> <li>Taking informed decisions</li> </ul>	<p>The Council's Licensing and General Purpose Committee (L&amp;GP Committee) has made progress in implementing CIPFA's guidance for Audit Committees. The Committee has agreed a new Terms of Reference, a workplan and received regular risk management updates during the year. L&amp;GP Member training, in May 2018, on how the L&amp;GP would self-assess its effectiveness was well received by Members who agreed that they had a wider understanding of what a good assurance framework looks like.</p> <p>Members are now looking for a wider assurance than controls, integrating financial, risk and performance measurements, independent assurance with VFM outcomes. They also need to understand how the Council's Assurance Framework underpins planning, performance management and risk management leading to a good understanding of how the Council achieves its objectives and addresses areas for improvement. The improved L&amp;GP Committee understanding is a useful investment and may reduce the amount of scrutiny committee time needed. The L&amp;GP Committee will monitor their progress over the coming year and produce a 2018/19 report on its effectiveness for presentation to Council.</p>



# 06 Other reporting issues



## Other reporting issues

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# 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 (AGS) and can confirm it is consistent with other information from our audit of the financial statements. We have no issues to report on this.

### 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 completed our work in this area and there are no matters to report.

### 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 reporting issues



### Other matters

#### Impact of faster close

Overall the impact of “faster close” and the earlier deadline for audited accounts has not caused any significant issues. The overall quality of the financial statements preparation process was sufficient for our purposes. As is to be expected for the first time through a process such as this, there will be improvements that we can make for next year and we have planned a debrief session with officers after the end of the audit to identify and capture these.

We'd like to thank officers for their co-operation and timeliness of responses to audit queries.

#### Data analytics

As part of our audit approach we use data analytical tools which give us the easy ability to analyse and investigate the whole of the Authority's general ledger data as discussed in section 8.

#### Assessment of new Accounting Standards

- IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. Our view is that the impact on the Authority's financial statements will be immaterial. The changes will be limited to some reclassification. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by Central Government
- IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. In our view IFRS 15 will not have a material impact on the Authority's financial statements as the vast majority of the Council's income streams are taxation or grant based.





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 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

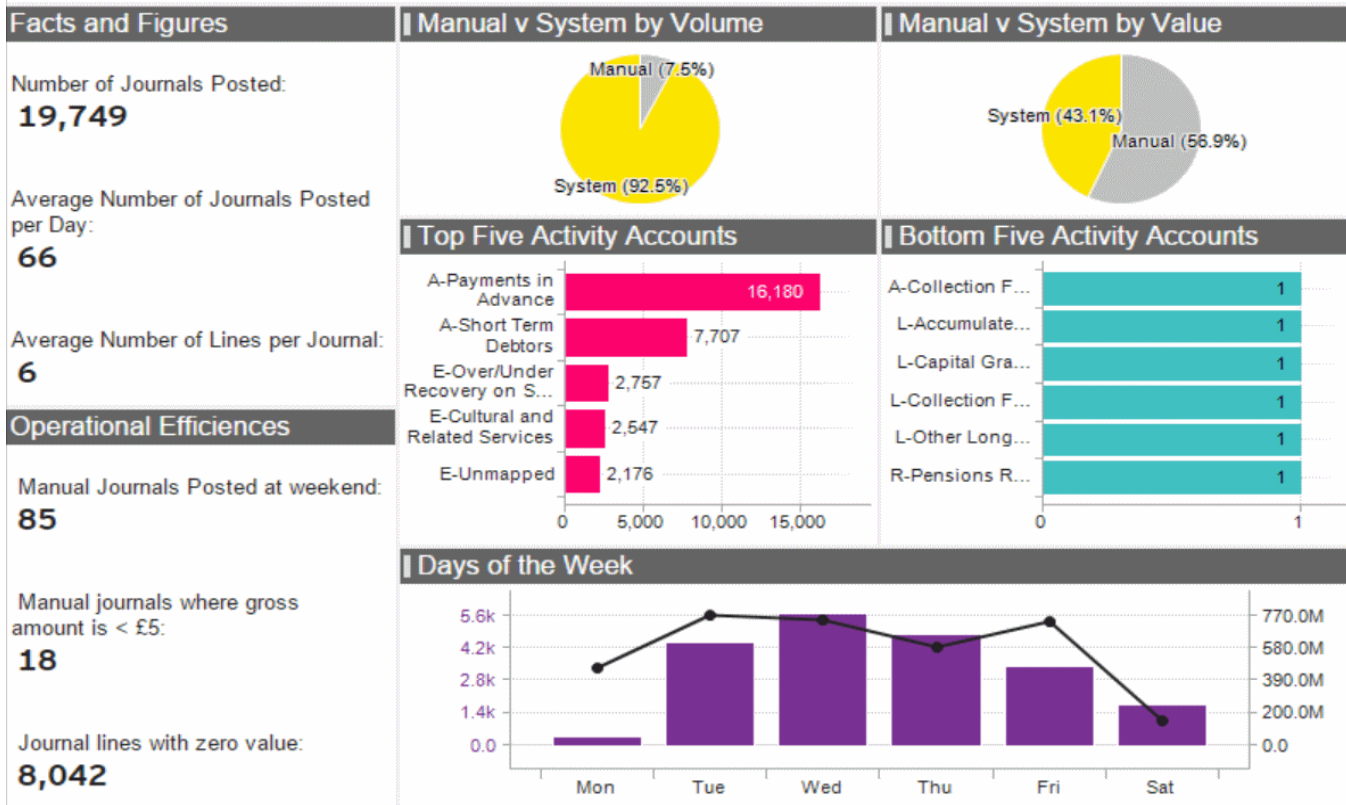
We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We can then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



## Journal Entry Data Insights

The graphic outlined below summarises the 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.

### EY Helix - GLASS: Journal Entry Data Insights - Rushmoor BC - 31/03/18



### Why do we do this?

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

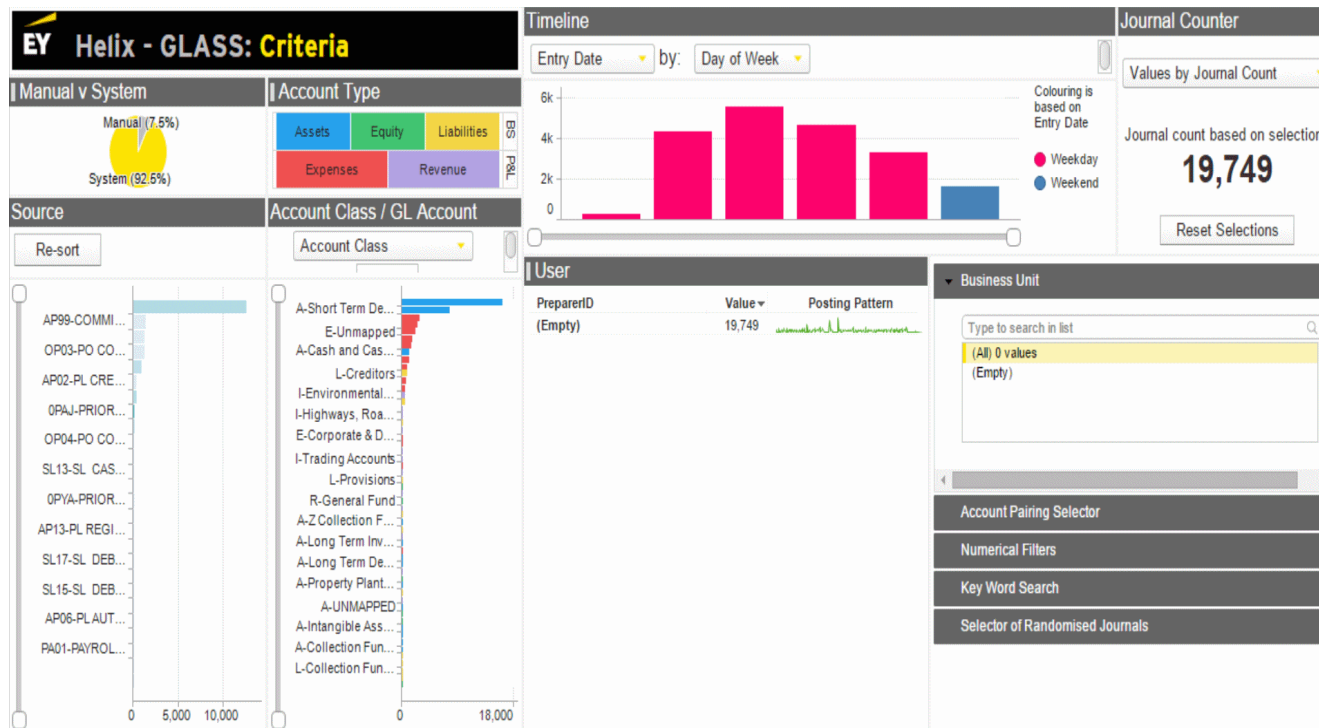
### What is the risk?

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 – 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.

### 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.





# Data Analytics

## Payroll Analyser Insights

The graphic outlined below summarises the Authority's payroll data for 2017/18, including contractors. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.

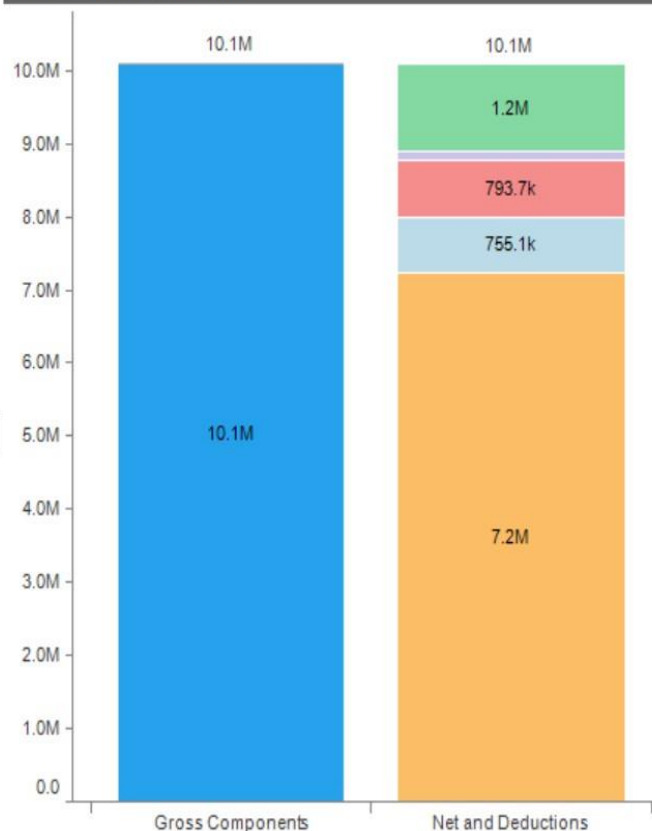
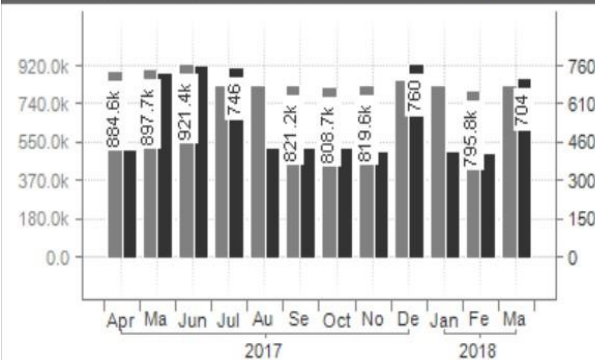
### EY Helix - Payroll Analyser: 1. Payroll Overview



#### 1.4 Monthly Trending Analysis of Gross Pay and E...

#### 1.1 Payroll Summary

#### 1.2 Transaction Summary



- Basic pay
- Net pay
- Bonuses
- Employee NI
- Employee Pension
- Holiday pay
- Other Deductions
- Other gross 1
- Other gross 2
- Other gross 3
- Overtime
- PAYE

Column	Value	% of Gross
Basic Pay	10.1M	100.0%
Overtime	0.0	0.0%
Holiday pay	0.0	0.0%
Bonuses	0.0	0.0%
Other gross 1	0.0	0.0%
Other gross 2	0.0	0.0%
Other gross 3	0.0	0.0%
Gross Pay	10.1M	100.0%
Net Pay	7.2M	71.8%
PAYE	1.2M	11.8%
Employee NI	755.1k	7.5%
Employer NI	944.7k	9.4%

#### 1.3 Data Insights

	Gross	#/%
Staff Turnover		11.76%
Employees not in Master File	31.7k	19
Employees not in Transactions	0.0	8
Payments after Leave Date	73.6k	41
Payments before Join Date	3.9k	5
Largest Gross Payment	47.7k	
Average Gross Payment	1.5k	
Smallest Gross Payment	0.0	
Employee(s) under minimum wage		N/A
Highest Paid Employee : Median Employee		145.10

#### 1.5 Employee Movement





09

Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 31 January 2018.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Licensing and General Purposes 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 Licensing and General Purposes Committee on 30 July 2018.

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

# Independence

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## Relationships, services and related threats and safeguards

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.

### **Services provided by Ernst & Young**

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, we have been retained to provide audit services for from 1 April 2018.

# 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	49,838	49,838	49,838	49,838
Additional fee for work on PPE	0	0	0	3,791
Other non-audit services not covered above (Housing Benefits)	TBC	8,652	8,652	7,511
<b>Total fees</b>	<b>TBC</b>	<b>58,590</b>	<b>58,590</b>	<b>61,140</b>







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 Licencing and General Purposes 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
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Terms of engagement	Confirmation by the Licencing and General Purposes 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.	January 2018 - Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	January 2018 - Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	July 2018 - Audit results report

# 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"> <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 Rushmoor 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>▶ Material misstatements corrected by management</li> </ul>	July 2018 - Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Licencing and General Purposes Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	July 2018 - Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Licencing and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ 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"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Licencing and General Purposes Committee responsibility.</li> </ul>	<p>July 2018 - Audit results report</p> <p>Enquiries were made during the audit, and there are no issues to report to you.</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"> <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 regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>July 2018 - Audit results report</p> <p>No issues to report</p>
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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>January 2018 - Audit planning report</p> <p>July 2018 - Audit results report</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Licencing and General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Licencing and General Purposes Committee may be aware of</li> </ul>	<p>We have made inquiries of management, the Monitoring Officer and those charged with governance.</p> <p>We have not identified any material instances or non-compliance with laws and regulations.</p>
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>	We have not identified any significant deficiencies in internal controls.

# 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"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	July 2018 - Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	July 2018 - Audit results report No issues to report.
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	July 2018 - Audit results report No circumstances.
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	January 2018 - Audit Planning Report July 2018 - Audit results report
Certification work	<ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>	Certification Report - expected December 2018 / January 2019



# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]  
[Date]

**Ernst & Young LLP**  
Apex Plaza  
Forbury Road  
Reading  
RG1 1YE

This letter of representations is provided in connection with your audit of the council financial statements of Rushmoor Borough Council ("the Council") for the year ended 31<sup>st</sup> 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 council financial statements give a true and fair view of the financial position of Rushmoor Borough Council as of 31<sup>st</sup> March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Council.

We understand that the purpose of your audit of our council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Council.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the council financial statements. We believe the council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and are free of material misstatements, including omissions. We have approved the council financial statements.
3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Council that are free from material misstatement, whether due to fraud or error.

# Management representation letter

## Management Rep Letter

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 council financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

### 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 Council 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.
2. All material transactions have been recorded in the accounting records and are reflected in the council financial statements.
3. We have made available to you all minutes of the meetings of the Full Council, Cabinet and Licensing and General Purposes 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: 30 July 2018.

# Management representation letter

## Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended 31<sup>st</sup> of March 2018, 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 council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the council 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 council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.

4. No claims in connection with litigation have been or are expected to be received.

### E. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the council financial statements or notes thereto.

### F. Other information

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

### G. Reserves

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

# Management representation letter

## Management Rep Letter

### 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 non-current assets* and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### I. Accounting Estimates: Valuation of Pension Asset/Liabilities and Property, Plant and Equipment Estimates and NDR

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate 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 estimated valuations of Pension Asset/Liabilities, Property, Plant and Equipment and NDR appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council.
3. We confirm that the disclosures made in the council financial statements with respect to the accounting estimate(s) 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 estimate(s) and disclosures in the council financial statements due to subsequent events.

### J. Retirement benefits

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

Yours faithfully,

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Amanda Fahey  
Chief Financial Officer

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John Woolley  
Chair of the Licensing and General Purposes Committee



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