

**London Borough of
Hillingdon**
Audit results report
Year ended 31 March 2018

16th July 2018

16th July 2018



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of London Borough of Hillingdon for 2017/18. We will issue our final report at the Audit Committee meeting scheduled for 26th July 2018.

We have substantially completed our audit of the London Borough of Hillingdon (the Council) for the year ended 31st 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 31st July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

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

Yours faithfully

A handwritten signature in black ink, appearing to read 'Maria Grindley', written in a cursive style.

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit Committee and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of London Borough of Hillingdon those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 11th April Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We have carried out our audit in accordance with this plan. The only update from that plan is our revision of materiality.

- ▶ **Changes in materiality:** We updated our planning materiality assessment using the draft consolidated 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 £14.75 m (Audit Planning Report – £14.34 m). This results in updated performance materiality, at 75% of overall materiality, of £11.07 m, and an updated threshold for reporting misstatements of £0.74 m.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Status of the audit

We have substantially completed our audit of London Borough of Hillingdon's financial statements for the year ended 31st March 2018 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the outstanding items set out in Appendix D we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise.

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

Audit differences

There are no currently no unadjusted or adjusted audit differences arising from our audit which we need to bring to your attention. Further details of the thresholds which we apply to report audit differences can be found in Section 4.

As the audit is still ongoing it is possible that we will identify audit differences which we will need to bring to your attention. We will provide an update at the Audit Committee meeting on 26th July.

Executive Summary

Objections

We have received correspondence from a member of the public. We are currently assessing this and will liaise with senior officers. We will provide a verbal update at the Audit Committee meeting on 26th July.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of London Borough of Hillingdon's financial statements. This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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

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

Control observations

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

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 did not identify any Value For Money Significant Risks.

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



Executive Summary

Other reporting issues

We need to review the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We are still concluding our work in this area and will report any findings from our review at the Audit Committee meeting on 26th July.

In addition we also need to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have not yet started our review of the WGA submission and will provide an update at the Audit Committee meeting on 26th July.

Independence

Please refer to Section 10 for our update on Independence. 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.



02

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.

The risk in local government resides in areas in which management judgements are made and transactions not subject to routine based system controls. As such we attach the risk of revenue recognition to the judgements made in recognising capital expenditure and the subsequent capital financing transactions.

What judgements are we focused on?

The risk is focused on significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit.

We have identified the following significant transactions which we consider to present a risk of revenue and expenditure recognition:

- ▶ Minimum Revenue Provision (MRP);
- ▶ Capital Financing Requirement (CFR);
- ▶ Revenue and Expenditure Funded from Capital Under Statute (REFCUS); and
- ▶ Property, Plant and Equipment (PPE) additions.

What did we do?

- ▶ Engaged with management to understand the overall financial position;
- ▶ Examined data that supports significant additions and disposals during the period;
- ▶ Reviewed the schedule of expenditure classified as Revenue Expenditure Funded by Capital Under Statute (REFCUS);
- ▶ Ensured the calculation of the Capital Financing Requirement is compliant with the Code;
- ▶ Ensured additions and disposals tested in PPE are internally consistent with the capital financing disclosure; and
- ▶ Reviewed and discussed with management any accounting estimates on revenue recognition for evidence of bias.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.





Areas of Audit Focus

Risk of fraud in revenue and expenditure recognition



Further details on procedures/work performed

Procedures focused on revenue account

Review and test revenue and expenditure cut-off at the period end date;

- We extended our cut-off procedures with testing on cash and accounts payable transactions around year-end.

Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;

- This has been reviewed as part of our work on the testing of accruals.

Procedures focused on balance sheet

Capital Financing Requirement and Minimum Revenue Provision

- We ensured that the calculation of the Capital Financing Requirement was compliant with the requirements of the Code and that the disclosure in the financial statements are internally consistent with the PPE, Investment Property, Intangible Assets and Group Account notes. We checked that MRP was appropriately calculated using the method outlined in the prudential code, paying specific attention to any MRP on unsupported borrowing.

REFCUS

- Reviewed expenditure classified as REFCUS and ensured that the expenditure met the broad principle of allowable expenditure, or was incurred under direction from the secretary of state.

Additions and disposals

- For significant additions (including capitalized labour, borrowing costs and other acceptable costs) and disposals during the period, we examined invoices, capital expenditure authorizations, leases and other data that supported the additions and disposals, to ensure assets capitalized met the correct definition and that the capital expenditure was appropriately recognized

Minute Review

- We reviewed the Council's minutes to identify any transactions that may be outside the normal course of business

Journals

- We gained an understanding of the manual journal posting protocol in place at the Council for which the accounting entries for capital expenditure are made.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – 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 have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. We have concluded that the judgements we are focused on are items of non-routine income and expenditure, involving management estimation and judgement, rather than transactions created through routine invoicing processes.

As this relates to how the Council recognises revenue and expenditure, we have addressed the risk through our procedures to address the risk of fraud in revenue and expenditure recognition.

Our work on the risk of management override therefore focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

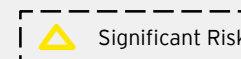
We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

What did we do?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. We have concluded that the judgements we are focused on are items of non-routine income and expenditure, involving management estimation and judgement, rather than transactions created through routine invoicing processes.

As this relates to how the Council recognises revenue and expenditure, we have addressed the risk through our procedures to address the risk of fraud in revenue and expenditure recognition.

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Areas of Audit Focus

Other areas of audit focus

In our Audit Planning Report, we identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

| What is the risk/area of focus? | What did we do? |
|--|---|
| <p><u>Valuation of Land and Buildings</u> Land and buildings is one of the most significant balances in the Council's Balance Sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p> | <p>We have:</p> <ul style="list-style-type: none"> ▶ Reviewed the data sent to, and the report produced by, the Council's valuer; ▶ Challenged the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists; and ▶ Tested the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements. <p>Conclusion: We are still concluding our work in this area and will provide an update at the Audit Committee meeting on 26th July</p> |
| <p><u>Pension Liability Valuation</u> The Local Council 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 administered by London Borough of Hillingdon Pension Fund. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £525 m. The information disclosed is based on the IAS 19 report issued by the actuary to the London Borough of Hillingdon. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</p> | <p>We have:</p> <ul style="list-style-type: none"> ▶ Liaised with the auditors of London Borough of Hillingdon Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Council's scheme members, this identified no issues with the information provided to the actuary; ▶ Assessed the work of the LGPS Pension Fund actuary (Hymans Robertson) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; and ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. <p>Conclusion: We are still concluding our work in this area and will provide an update at the Audit Committee meeting on 26th July</p> |
| <p>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.</p> | |



Areas of Audit Focus



Accounting Standards Issued But Not Yet Adopted

The CIPFA Code confirms that application of IFRS 15 'Revenue from Contracts with Customers' does not apply to Local Government entities for 2017/18. It is expected that the standard will be applied for years commencing 1 January 2018 onwards which, for Local Government entities, is the financial year ended 31 March 2019.

The standard is not expected to have a significant impact on most Local Government clients as the majority of funding is drawn down from parliament; however any other income streams will need to be considered against the criteria in the standard.

Management have not yet formally completed an assessment of the impact of IFRS 15 at London Borough of Hillingdon.

We will work with management to understand the process for reporting under IFRS 15 once the reporting requirements for the sector are confirmed in the Department CIPFA Code Accounting Manual 2018/19.

Other standards which have been issued but not yet adopted include IFRS 9 and IFRS 16. These relate to Financial Instruments and Leases respectively. We will also liaise management in respect of these standards when they are required to be incorporated within the CIPFA Code of Practice on Local Council Accounting and will use our technical colleagues as necessary to support the finance team as necessary.



03 Audit Report



Audit Report

Draft audit report

Audit Opinion 2017/18

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON

Opinion

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

- London Borough of Hillingdon Movement in Reserves Statement;
- London Borough of Hillingdon Comprehensive Income and Expenditure Statement;
- London Borough of Hillingdon Balance Sheet;
- London Borough of Hillingdon Cash Flow Statement;
- London Borough of Hillingdon Expenditure & Funding Analysis;
- Notes 1 to 47;
- London Borough of Hillingdon Housing Revenue Account Income and Expenditure Statement;
- The Movement on the Housing Revenue Account Statement and related notes 1 to 8; and
- The 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 Council Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of London Borough of Hillingdon 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 Council 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 London Borough of Hillingdon 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 Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or



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Our opinion on the financial statements

the Corporate Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

Other information

The other information comprises the information included in the Narrative Report on pages 4-11 other than the financial statements and our auditor's report thereon. The Corporate Director of Finance 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, London Borough of Hillingdon put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects



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Our opinion on the financial statements

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 12, the Corporate Director of Finance 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 Council 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 Corporate Director of Finance is responsible for assessing the 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 the Council either intends to cease operations, or have no realistic alternative but to do so.

The 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 the London Borough of Hillingdon 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 London Borough of Hillingdon put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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



Audit Report

Audit Opinion 2017/18

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 the 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 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 the 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 London Borough of Hillingdon 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 London Borough of Hillingdon, 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 London Borough of Hillingdon and the London Borough of Hillingdon's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Reading

26th July 2018

The maintenance and integrity of the London Borough of Hillingdon 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.

A woman with long brown hair, wearing a dark sleeveless top, is pointing her right index finger at a large digital display wall. The wall is filled with various financial charts, including line graphs and bar charts, and data tables. The background is a dimly lit room with blue ambient lighting.

04 Audit Differences



Audit Differences

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

Summary of adjusted differences

Adjusted Differences:

We highlight adjusted differences greater than £11.063 m which have been corrected by management that were identified during the course of our audit.

There currently are no adjustments greater than this threshold which need reporting.

Unadjusted Differences:

We highlight unadjusted differences greater than £0.738 m which have not been corrected by management that were identified during the course of our audit. There currently are no uncorrected differences greater than this threshold which need reporting.

As we are still concluding our work in a number of areas it is still possible that further audit differences will be identified. We will provide an update at the Audit Committee meeting on 26th July on the status of our audit and also any differences which we need to report to you.



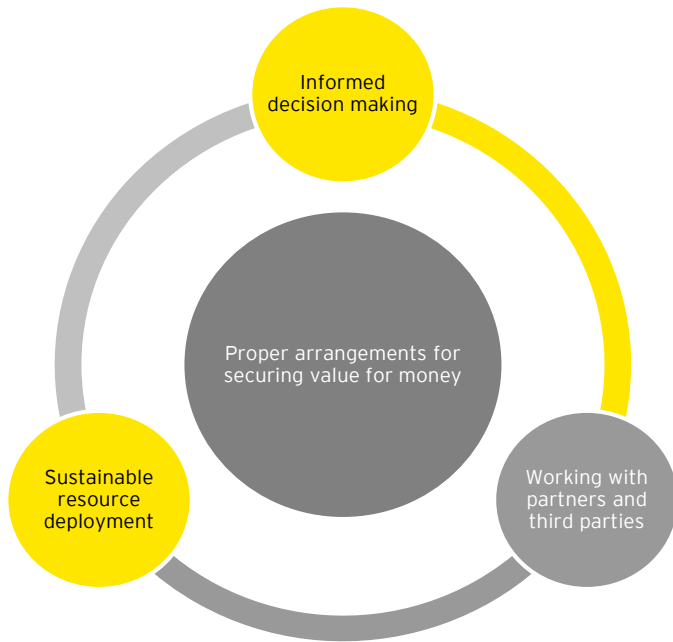
05

Value for Money Risks





Value for Money



Background

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

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

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

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

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

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

Overall conclusion

We did not identify any significant risks around these criteria.

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



06 Other reporting issues



Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

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

We are still in the process of confirming the consistency of the Financial information in the Statement of Accounts 2017/18 and published with the financial statements.

We have not yet reviewed the Annual Governance Statement.

We will provide a verbal update to the Audit Committee at the meeting on 26th July on the findings of our work in these areas.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the 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 Council 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 Council, 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 [Council]'s financial reporting process. They include the following:

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

We have nothing we need to report in respect of any of these items as at the date of this report. We will provide an update at the Audit Committee meeting on 26th July should we need to make the Committee aware of any of these other matters.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

- ▶ Data analytics – supporting our work on revenue recognition and management override

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 Council'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 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.



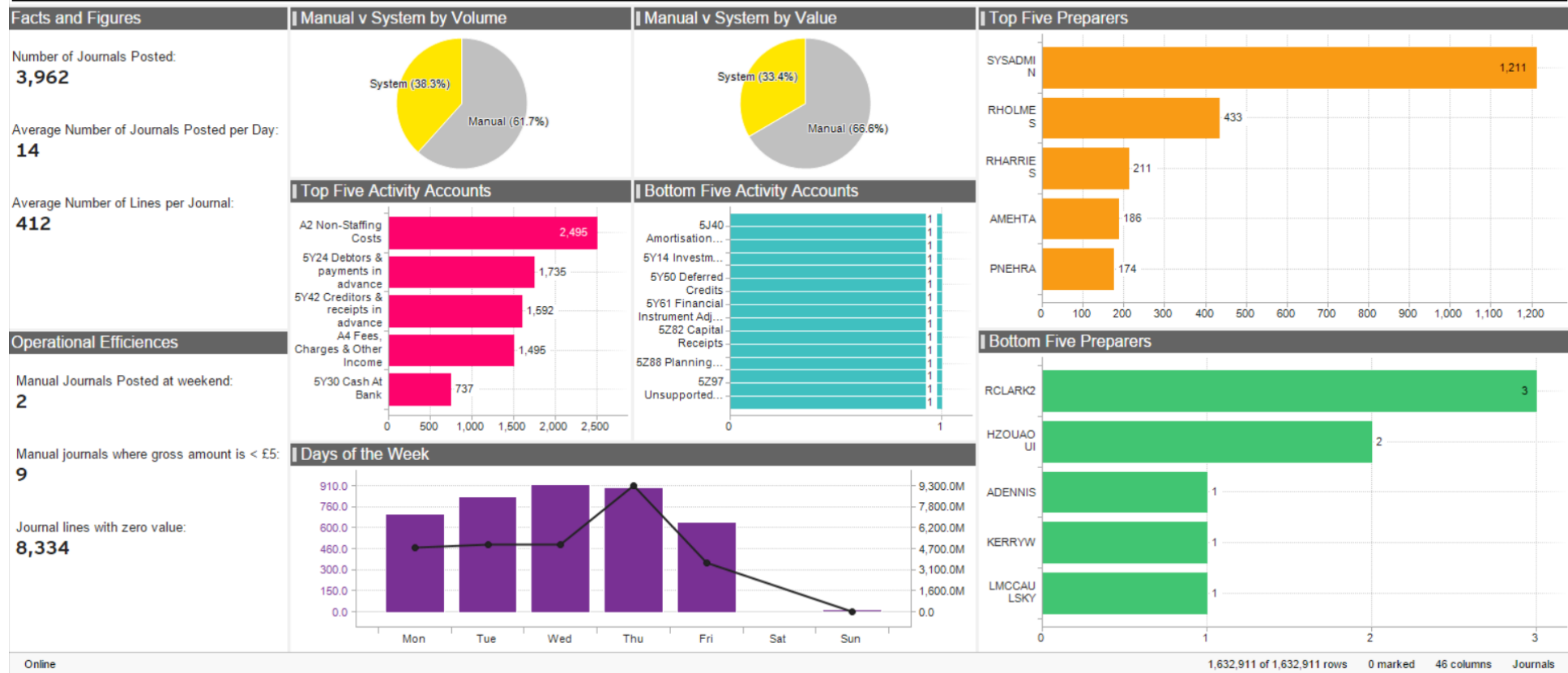
Data Analytics

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.

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. We can also shared this information with management to provide additional insight and value from our audit procedures.

EY Helix - GLASS: Journal Entry Data Insights - London Borough of Hillingdon - YE - 31/03/2018





Journal Entry Testing

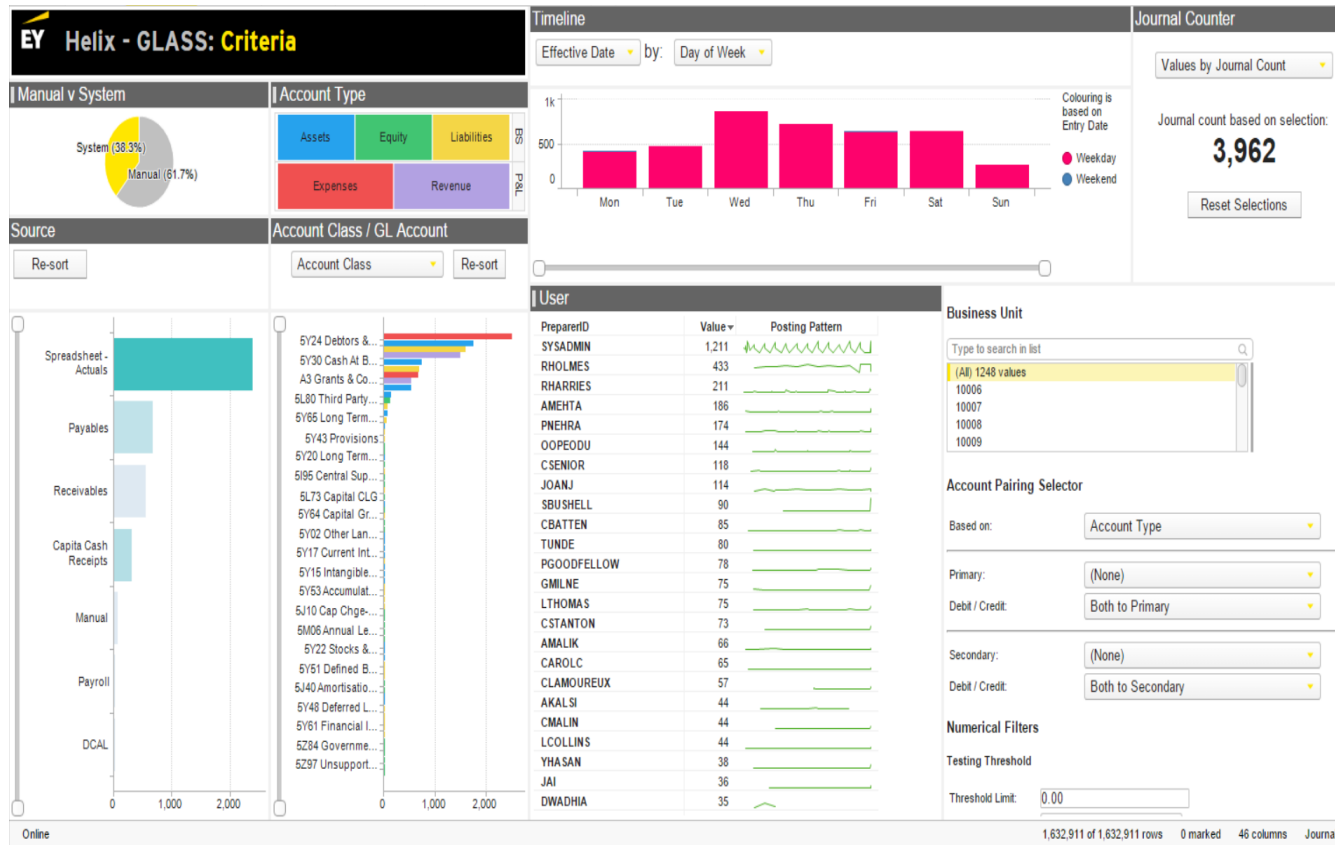
What is the risk?

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.

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.

Journal entry data criteria – London Borough of Hillingdon – 31 March 2018



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.

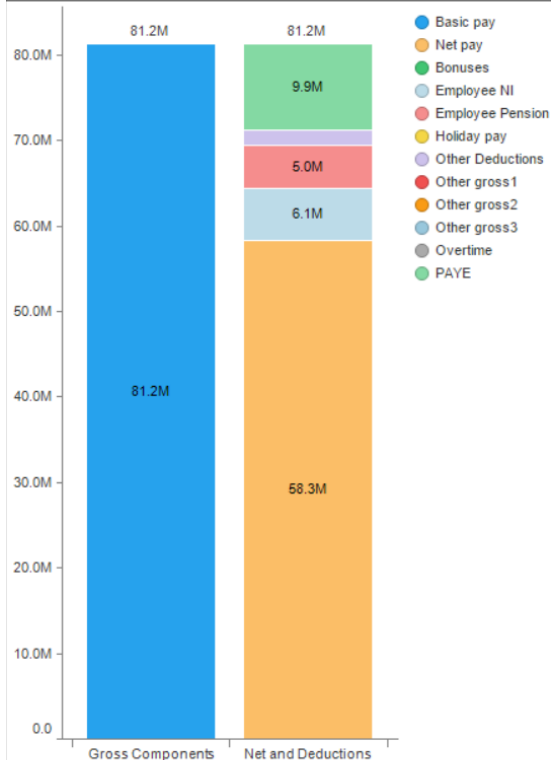


Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2017/18. 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

1.1 Payroll Summary



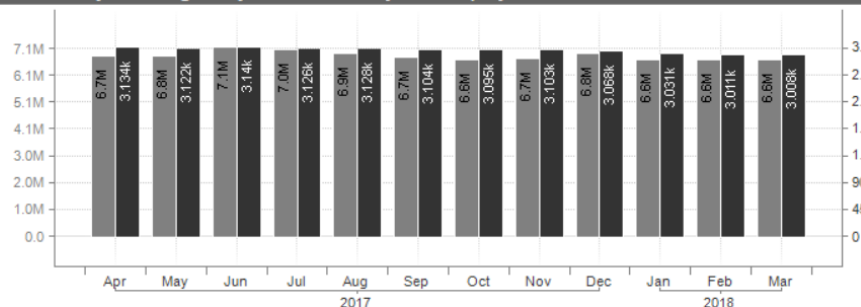
1.2 Transaction Summary

| Column | Value | % of Gross |
|------------------|---------|------------|
| Basic Pay | 81.2M | 100.0% |
| Overtime | (Empty) | (Empty) |
| Holiday pay | (Empty) | (Empty) |
| Bonuses | (Empty) | (Empty) |
| Other gross1 | (Empty) | (Empty) |
| Other gross2 | (Empty) | (Empty) |
| Other gross3 | (Empty) | (Empty) |
| Gross Pay | 81.2M | 100.0% |
| Net Pay | 58.3M | 71.8% |
| PAYE | 9.9M | 12.3% |
| Employee NI | 6.1M | 7.5% |
| Employer NI | 7.7M | 9.5% |
| Employee Pension | 5.0M | 6.2% |
| Employer Pension | 15.9M | 19.6% |
| Other | 1.8M | 2.2% |

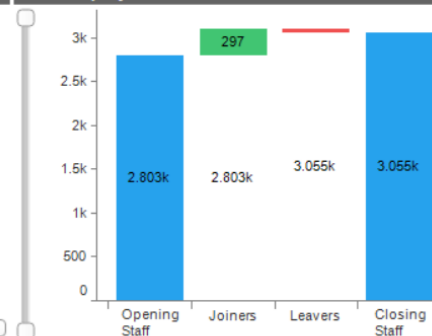
1.3 Data Insights

| | Gross | #/% |
|---|--------|-------|
| Staff Turnover | | 1.45% |
| Employees not in Master File | 6.3M | 499 |
| Employees not in Transactions | 0.0 | 43 |
| Payments after Leave Date | 295.9k | 31 |
| Payments before Join Date | 161.9 | 1 |
| Largest Gross Payment | 119.6k | |
| Average Gross Payment | 2.2k | |
| Smallest Gross Payment | -4.2k | |
| Employee(s) under minimum wage | | N/A |
| Highest Paid Employee : Median Employee | | 21.43 |

1.4 Monthly Trending Analysis of Gross Pay and Employee Count



1.5 Employee Movement



Online

684 of 684 rows 0 marked 5 columns Employee Flow



Payroll Testing

What judgements are we focused on?

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

Payroll Data – London Borough of Hillingdon – 31 March 2018



What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appears anomalous compare to average monthly payments.

We then tested the anomalies to determine if they were appropriate and reasonable.

What are our conclusions?

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



10

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in [our audit planning board report dated 11th April 2018].

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

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

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 Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, 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 1st 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 2017-18 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included above.

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

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

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 31st March 2018.

We confirm that we have undertaken non-audit work outside the PSAA Code requirements. This work involved the certification of two claims and returns. These were the certification of the Housing Capital Receipts Return and also the Teacher's Pensions certification. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in November 2017.

| | Final Fee 2017/18 | Planned Fee 2017/18 | Scale Fee 2017/18 | Final Fee 2016/17 |
|--|----------------------|------------------------|----------------------|----------------------|
| | £ | £ | £ | £ |
| Total Audit Fee - Code work | TBC* | 157,268 | 157,268 | 158,712 |
| Certification of Housing Capital Receipts and Teacher's Pensions | TBC | TBC | N/A | 15,000 |
| Total non-audit services | TBC* | 173,268 | 157,268 | 173,712 |

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The London Borough of Hillingdon has an effective control environment.

TBC We completed the certification of these 2 claims and returns in 2016/17. We will communicate with senior officers in due course about the arrangements for completing the 2017/18 claims and returns

TBC* We will communicate our final fee at the end of the audit. We will discuss any adjustment to the scale fee with senior officers and provide an update as part of our communications at the end of the audit.

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.

11 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

| Balance sheet category | Audit Approach in current year | Audit Approach in prior year | Explanation for change |
|------------------------|--|--|---|
| Trade receivables | Substantively tested all relevant assertions | We tested controls over Trade Receivables | In line with the Faster Close arrangements in effect for 2017/18 we changed our audit strategy from a controls reliance one to a substantive approach |
| Trade payables | Substantively tested all relevant assertions | We tested controls over Trade Payables | As Above |
| Tangible fixed assets | Substantively tested all relevant assertions | Substantively tested all relevant assertions | No change |
| Cash | Substantively tested all relevant assertions | Substantively tested all relevant assertions | No change |

Appendix B





Summary of communications

| Date  | Nature  | Summary  |
|--|--|---|
| 28 th November 2017 | Meeting | The Audit Manager and team leader met with the Head of Pensions, Treasury and Financial Reporting and the Chief Accountant to discuss the 2017/18 audit. This meeting also touched on the 2016/17 audit process. |
| 13 th December 2017 | Meeting | The Engagement Partner and Audit Manager for the engagement met with management to discuss the timings of the audit and the key matters impacting the Council |
| 23 rd January & 15 th February 2018 | Meeting | The Audit Manager and team leader met with the Head of Business Assurance and Counter-Fraud for an update meeting on these dates. Also present at that meeting was the Senior Internal Audit Manager and the Counter-Fraud Manager. |
| 2 nd March 2018 | Report | The Audit Planning Report, including confirmation of independence, was issued to the Audit Committee. |
| 11 th April 2018 | Meeting | Manager for the engagement met with the Audit Committee and senior members of the management team to discuss the Audit Planning Report. |
| 30th April 2018 | Meeting | The Engagement Partner and Audit Manager for the engagement met with senior management including the Corporate Director of Finance to discuss the timings of the audit and the key matters impacting the Council |
| 16 th July 2018 | Report | The Audit Results Report, including confirmation of independence, was issued to the Audit Committee. |
| 26 th July 2018 | Meeting | The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit Committee and senior members of the management team to discuss the Audit Results Report. |




Appendix C

Required communications with the Audit Committee

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

|  Our Reporting to you | | |
|--|---|--|
| Required communications |  What is reported? |   When and where |
| Terms of engagement | Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit planning report presented to the 11 th April Audit Committee |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report presented to the 11 th April Audit Committee |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Audit results report presented to the 26 th July Audit Committee |




Appendix C

| | |  Our Reporting to you |
|--------------------------------|---|--|
| Required communications |  What is reported? |  When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about [insert client name]'s ability to continue for the 12 months from the date of our report |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management | Audit results report presented to the 26 th July Audit Committee |
| Subsequent events | <ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit Committee meeting on the 26 th July |
| Fraud | <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. | Audit results report presented to the 26 th July Audit Committee |




Appendix C

| | | 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 Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Council | Audit results report presented to the 26 th July Audit Committee |
| Independence | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> | Audit planning report presented to the 11 th April Audit Committee; & Audit results report presented to the 26 th July Audit Committee |

Appendix C

| | | Our Reporting to you |
|---|---|--|
| Required communications |  What is reported? |   When and where |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. | Audit results report presented to the 26 th July Audit Committee |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. | Audit planning report presented to the 11 th April Audit Committee; & Audit results report presented to the 26 th July Audit Committee |

Appendix C

| | | Our Reporting to you |
|--|--|--|
| Required communications |  What is reported? |   When and where |
| Written representations we are requesting from management and/or those charged with governance | <ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance | Audit results report presented to the 26 th July Audit Committee |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report presented to the 26 th July Audit Committee |
| Auditors report | <ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit results report presented to the 26 th July Audit Committee |
| Fee Reporting | <ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work | Audit planning report presented to the 11 th April Audit Committee; & Audit results report presented to the 26 th July Audit Committee |
| Certification work | <ul style="list-style-type: none"> ▶ Summary of certification work | Certification Report to be completed in line with the certification deadline of 30 th November 2018 |

Appendix D

Outstanding matters

The following items relating to the completion of our substantive audit procedures are outstanding at the date of the release of this report:

| Item  | Actions to resolve  | Responsibility  |
|--|---|--|
| Income and expenditure testing | Completion of outstanding testing of I&E | EY and management |
| IAS 19 Pension Liability testing | Completion of testing of IAS 19 pension liability including agreement of figures as per financial statements to actuarial reports Receipt of IAS 19 Assurance Letter from auditor of London Borough of Hillingdon Pension Fund | EY and management |
| Investment Testing | Completion of Investment testing including receipt of third party investment confirmations | EY and management |
| Property, Plant and Equipment (PPE) | Completion of outstanding tests on PPE | EY and management |
| Journals Testing | Completion of testing of Debtor and Creditor Balances | EY and management |
| Payroll Testing | Completion of testing of significant payroll balances | EY and management |
| Annual Governance Statement and Narrative Statement Review | Completion of review of the AGS and also the Narrative Statement | EY and management |
| Whole of Government Accounts Review | Completion of procedures to satisfy the requirements of the WGA Group Instructions | EY and management |
| Management representation letter | Receipt of signed management representation letter | Management and audit committee |
| Subsequent events review | Completion of subsequent events procedures to the date of signing the audit report | EY and management |
| Review of correspondence from a member of the public | Consider the points being raised against this years statements and make enquiries of the Council as appropriate | EY and management |

Management representation letter

Management Rep Letter

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

Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Maria,

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

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Management representation letter

Management Rep Letter

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

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
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 audit committee held through the period to the most recent meetings on the following dates: the Council meeting and the audit committee meeting minutes held on 10th May 2018.
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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter

Management Rep Letter

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.

D. Liabilities and Contingencies

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

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the 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, the Narrative Report and the Statement of Accountable Officer's Responsibilities.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

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

H. Reserves

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

Management representation letter

Management Rep Letter

I. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities) none of which any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

J. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and the valuation of the IAS 19 pension actuarial 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 objectivity of the specialists.

of any matters that have had an effect on the independence or objectivity of the specialist.

K. Valuation of Property, Plant and Equipment and IAS 19 Estimates

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 the CIPFA/LASAAC Code of Practice on Local Council Accounting 2017/18.

2. We confirm that the significant assumptions used in making the property, plant and equipment and IAS 19 pension liability estimates appropriately reflect our intent and ability to carry out the specific courses of action 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 the CIPFA/LASAAC Code of Practice on Local Council Accounting 2017/18.

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

Appendix E

Management representation letter

Management Rep Letter

L. Retirement Benefits

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

Yours sincerely,

Paul Whaymand - Corporate Director of Finance

John Chesshire - Chairman of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

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