

**Merton Council
Audit results report**

Year ended 31 March 2017

Page 191



EY

Building a better
working world

Private and Confidential

30 August 2017



Dear Standards and General Purposes Committee Members

We have substantially completed our audit of Merton Council (the Authority) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. This report is intended solely for the use of the Standards 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 look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Suresh Patel
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

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

The "Terms of Appointment (updated September 2015)" 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 Standards and General Purposes Committee, other members of the Authority and management of Merton Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, other members of the Authority and management of Merton 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 Standards and General Purposes Committee, other members of the Authority and management of Merton Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01 Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the Standards and General Purposes Committee, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan with the exception of our work in response to the risk relating to the new ledger and data migration. We were unable to gain sufficient assurance from the Authority's arrangements and were required to carry out additional substantive procedures over the migration of data. We agreed with the Director of Corporate Services an additional audit fee of £5,000.

We planned our procedures using a materiality of £10.25 million. We reassessed this using the actual year-end figures, which has increased this amount to £10.59 million. The threshold for reporting audit differences has increased from £512,000 to £529,000. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

Status of the audit

As at 30 August we have substantially completed our audit of Merton Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements and certify completion of the audit using the format which appears at Section 3:

- ▶ Full completion of audit testing of the year-end main bank account reconciliation and related reclassifications of balances on the general ledger which continues to be worked on by the Council.
- ▶ Full completion of sample testing of non-system debtors and creditors.
- ▶ Full completion of our review of the detailed accounting model supporting accounting entries in the financial statements relating to the Schools Private Finance Initiative (PFI).
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.
- ▶ Resolution of a small number of residual queries on our testing of expenditure and journals.
- ▶ Review of the final version of the financial statements, completion of subsequent events review and receipt of the signed management representation letter.

The introduction of the new E5 general ledger system by the Authority towards the end of 2016/17 required it to change a number of key internal financial control processes. The design and implementation of new control processes has not been straight-forward with a number of key control reconciliations, including the bank reconciliation, not available at commencement of the audit. Implementation of the ledger has also reduced officer capacity, which in turn has impacted on the working papers available to support the year-end audit and the provision of evidence to support audit testing undertaken earlier in the year. As a result of these matters we have been required to input additional unplanned time to obtain working papers, seek and gain responses to audit queries and complete the necessary audit procedures. We have agreed with the Director of Corporate Services a further additional audit fee of £7,000.

We have concluded that the Authority is not yet well placed to meet the earlier deadlines for production and audit of the financial statements in 2017/18 and have raised recommendations for improvement in the main body of the report. Management recognise these issues and have accepted the recommendations, together with a clear commitment to working with us to address this in 2017/18.

We will provide the Committee with a verbal update of the outstanding matters listed above.



Executive Summary

Audit differences

As at 30 August there are no unadjusted misstatements which we are required to bring to your attention.

We have identified a number of audit differences which have been adjusted by management. Details can be found in Section 4 - Audit Differences.

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 commenced the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have yet to fully conclude our work in this area and will verbally update the Committee.

The financial statements submitted for audit were not fully supported by the required working papers as agreed with the Authority earlier in the year. In preparation for the earlier deadline for production and audit of the financial statements in 2017/18 we planned and conducted substantive procedures at the interim stage of the audit in February and March of 2017. The Council was slow to provide evidence to support our testing at the interim stage, with much of the requested evidence still not available at commencement of the post statement audit in July. Although we recognise that implementation of the new financial ledger had a significant impact on officer capacity over year-end and into the new financial year this needs to be addressed.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified significant risks which are considered in more detail in Section 5 of this report.

We have included our detailed commentary on the work we have performed but we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Areas of audit focus

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

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

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



Executive Summary

Control observations

Implementation of the new general ledger system has necessitated changes to many of the Council's key internal financial control processes. At commencement of the audit the Council was not able to provide a complete year-end bank reconciliation or reconciliation of the creditors control account. A supported creditors control account reconciliation has now been provided, but there remains an unidentified reconciling item of approximately £285,000. As at 30 August we have not yet been provided with a bank reconciliation that we are able to test, and some further adjustments will need to be made to the bank balance on the ledger and cash balance disclosed in the draft financial statements. We will update the Committee verbally with details of progress.

As at 30 August we are therefore not yet able to fully conclude whether there are any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

Independence

Please refer to Appendix B for our update on Independence.





02 Areas of Audit Focus



Areas of Audit Focus

Audit issues and approach: Management Override

Management override

What did we do?

To gain assurance in respect of the general risk of management override:

- ▶ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- ▶ We reviewed accounting estimates for evidence of management bias.
- ▶ We evaluated the business rationale for any significant unusual transactions.
- ▶ We evaluated the rationale for any changes in accounting policy.

What is the risk?

Risk of management override

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



What are our conclusions?

Work to test manual debtor and creditor accruals, expenditure and journals, which is directly relevant to this risk, remains ongoing at 30 August.

Based on our work undertaken to date we have not identified any 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. We will update the Committee verbally with details of further progress.



Areas of Audit Focus

Audit issues and approach: New General Ledger Implementation

General Ledger Implementation

What did we do?

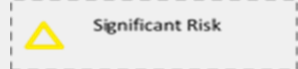
We planned to review the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This included reviewing the effectiveness of the reconciliation processes.

We sought to rely on any relevant controls over the migration of data established by the Council, and any relevant work of internal audit.

If we were unable to gain sufficient assurance that the Council had migrated all the relevant data completely and accurately we noted that we would need to undertake additional audit procedures, necessitating an additional audit fee.

What is the risk?

The Council introduced its new E5 general ledger system with effect from 7 February 2017. It put in place measures to migrate data on 2016/17 transactions and balances from the old to the new general ledger system. The Council's 2016/17 financial statements were prepared using data taken from the new general ledger at the end of the financial year. To ensure the Council prepares materially accurate and complete 2016/17 financial statements it was essential that the Council was assured that it had migrated all financial data to its new general ledger.



What are our conclusions?

We carried out additional substantive procedures to gain assurance that data was completely and accurately migrated between the old and new general ledgers.

Implementation of the new general ledger system has necessitated changes to many of the Authority's key internal financial control processes. At commencement of the audit the Authority was not able to provide a complete year-end bank reconciliation or reconciliation of the creditors control account. As at 30 August we have not yet been provided with a bank reconciliation that we are able to test, and some further adjustments will need to be made to the bank balance on the ledger and cash balance disclosed in the draft financial statements.

The Authority has experienced difficulty in producing reports from the new general ledger system to allow us to use our analytics tools to support the audit process and it continues to be difficult to map the financial data provided to the financial statements. It was also not initially able to produce transactional analyses of both system and non-system debtors and creditors which has significantly delayed testing in these areas.

Based on all of this we have concluded the Authority is not currently well placed to achieve the tighter deadlines for production and audit of its financial statements in 2017/18.

Recommendation - The Authority should:

- Seek to fully establish and embed key control processes. The implementation of the new general ledger provides an opportunity to simply and automate these processes.
- Work to clarify and improve general ledger reporting and how financial data held on the ledger maps to the financial statements to better support the use of analytics to support the audit. Gaining a better understanding of these areas should also help the Authority to close down earlier.



Areas of Audit Focus

Audit issues and approach: Financial Statements Presentation

Financial Statements Presentation

What did we do?

Our approach focused on:

- ▶ A review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code.
- ▶ A review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Authority's organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreement of restated comparative figures back to the Authority's segmental analysis and supporting working papers.

What is the risk?

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

The new reporting requirements impact on both the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note.

The Code no longer requires statements or notes to be prepared in accordance with the Service Reporting Code of Practice (SeRCOP). Instead the service analysis is based on the organisational structure under which the authority operates. We expected this to show the Council's segmental analysis.

This change in the Code requires a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

What are our conclusions?

The Authority in general dealt well in adopting the new presentational changes required by the Code in its 2016/17 financial statements. A small number of relatively minor disclosure changes have been made as a result of our work in this area.

The majority of the Authority's work in this area was made available at the interim stage of the audit which allowed most issues and queries to be dealt with in a timely manner and prior to the production of the draft financial statements. We welcome this approach of working together during the year.



Areas of Audit Focus

Audit issues and approach: Valuation and impairment of property, plant and equipment and investment property

PPE Valuation

What is the risk?

Property, Plant and Equipment (PPE) represents the largest asset value on the Council's balance sheet. PPE is initially measured at cost and then revalued to fair value, determined by the amount that would be paid for the asset in its existing use, on a 5 year rolling basis. The Council relies on its professional valuer using a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.

What did we do?

Our approach has focused on:

- ▶ Consideration of the work performed by the Council's internal valuer, including the adequacy of the scope of the work performed, professional capabilities and the results of their work;
- ▶ Testing a sample of recalculations processed on the fixed asset register to individual valuation certificates, including a check of the accuracy of the valuer's calculations;
- ▶ Consideration of the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these had been communicated to the valuer;
- ▶ Review of the valuer's approach for assets not subject to valuation in 2016/17 to confirm that the remaining asset base is not materially misstated;
- ▶ Consideration of external evidence of assets values via reference to the specific Local Government Gerald Eve report commissioned by the NAO for auditor use. Specifically we considered if this indicated any material variances to the asset valuations performed by the valuer;
- ▶ Consideration of changes to useful economic lives as a result of the most recent valuation;
- ▶ Consideration of whether all asset categories, including those held at cost, had been assessed for impairment and are materially correct; and
- ▶ Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

What are our conclusions?

We identified no significant deficiencies in the Authority's overall approach to asset valuation which is robust and designed to ensure full compliance with the requirements of the Code of Practice on Local Authority Accounting.

There were, however, a number of disclosure errors made in the Property, Plant and Equipment note and related entries in the financial statements. Adjustments to correct this impact on the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement and a number of supporting notes. These errors could have been detected though initial quality review of the draft financial statements submitted for audit.



Areas of Audit Focus

Audit issues and approach: Pensions Accounting

Pensions Accounting

What is the risk?

The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £368.109 million (£263.154 million at 31 March 2016).

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

What did we do?

Our approach has focused on:

- ▶ Liaising with the audit engagement team and Executive Director of Merton Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Merton Council;
- ▶ Assessing the conclusions drawn on the work and assumptions used by Barnett Waddingham (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, PwC; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



Audit issues and approach: Pensions Accounting

What are our conclusions?

We are satisfied that IAS 19 entries have been correctly processed in the financial statements. There was however an error in the information passed to the Actuary relating to the Authority. We have sought and obtained sufficient assurance that the error has no material impact on related disclosures in the financial statements. It is important, however, that similar errors do not reoccur in the future.

Assumptions used by the actuary and adopted by the Authority are considered to be generally acceptable. However, PWC's Consulting Actuary report provided to us by Public Sector Audit Appointments Ltd highlighted that discount and inflation rates used by Barnett Waddingham fall outside what they consider to be an acceptable range. We are satisfied this has not resulted in errors in the Actuary's assessment of the IAS19 pension liability and associated disclosures in the Authority's financial statements. Using the EY Pensions team we have, however, concluded that the methodologies used to derive the discount rate and RPI inflation assumptions by Barnett Waddingham are not robust as they do not take adequate account of the specific duration of the scheme's liabilities. In future years, this could lead to unacceptable assumptions. We have reported this finding consistently at all clients using Barnett Waddingham.



03 Audit Report



Proposed Audit Report

Our opinion on the financial statements

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

Opinion on the Authority's financial statements

We have audited the financial statements of the London Borough of Merton for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement, and the related notes 1 to 44
- The Collection Fund and the related notes 1 to 5.

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

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

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Responsibilities set out on pages 152 - 153, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Proposed Audit Report

Our opinion on the financial statements

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Merton as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Conclusion on the London Borough of Merton's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

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

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



Proposed Audit Report

Our opinion on the financial statements

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the [name of 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. 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 Merton put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, the London Borough of Merton put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of the London Borough of Merton 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.

The maintenance and integrity of the London borough of Merton 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

Audit differences

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

Summary of adjusted differences

We report all known adjusted misstatements greater than £7.94 million.

At 30 August we highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

- ▶ A number of errors in the disclosure of movement in property, plant and equipment assets at Note 19 of the financial statements. The errors did not impact on the opening or closing net book value of property, plant and equipment in Note 19 or the face of the Balance Sheet.
- ▶ A £9.3 million understatement of the gross value of PFI assets disclosed at Note 27 of the financial statements. This impact was disclosure only and had no impact on the carrying value of assets accounted for on the Balance Sheet.
- ▶ Additional disclosure has been added to Note 33 of the financial statements (events after balance sheet date) to make clear that events subsequent to the balance sheet date mean that the asset held for sale disclosed at Note 22 of the financial statements is now unlikely to be sold in 2017/18 and will be retained by the Council as operational property, plant and equipment.

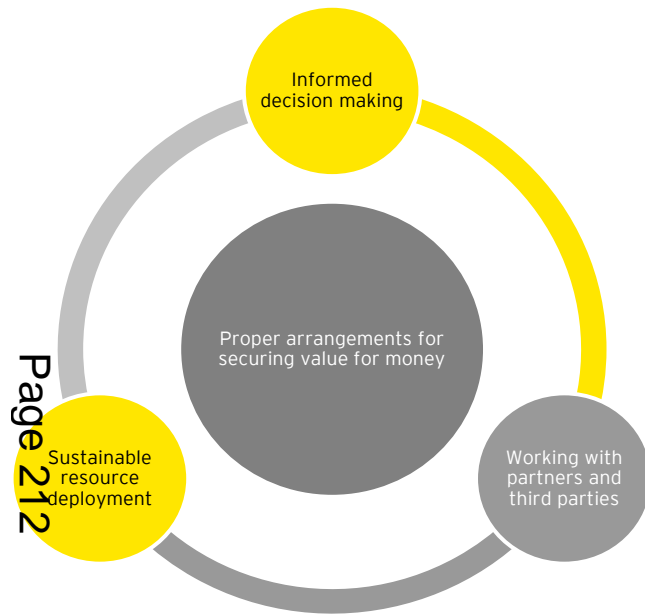
We report all uncorrected misstatements greater than £529,000. As at 30 August we expect there to be no uncorrected misstatements.



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We identified one significant risks in relation to your arrangements. The tables below present our findings in response to the risk in our Audit Plan.

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

We became aware, subsequent to completing our planning, of an Ofsted Inspection of Council services for children in need of help and protection, children looked after and care leavers. The results of the inspection are not due to be reported until 4 September 2017. The Council is pleased and proud of its performance and we do not expect the results of the inspection to have an impact on our responsibilities in respect of Value for Money.



Value for Money

VFM risks

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

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

The tables below present the findings of our work in response to the risks areas in our Audit Plan.

What is the significant VFM risk?	What arrangements did this affect?
<p>Failure to deliver medium term financial balance</p> <p>In common with many other councils Merton continues to face a highly challenging financial outlook. The annual budget gap net of planned savings and growth over the four years forecast in the Council’s medium term financial strategy (MTFS) reported to the March 2017 Council Budget meeting rises from a balanced position in 2017/18, to approximately £18 million in 2020/21.</p> <p>The main budgetary pressure continues to be current and forecast future growth in adult social care (ASC) spending. The latest forecast for the directorate is a £9 million overspend in 2016/17 leading to a forecast current year net overspend for the Council of approximately £6 million. The Council is therefore likely to call on reserves to a greater extent than budgeted for in the previous MTFS.</p>	<p>Deploying resources in a sustainable manner</p> <p>Informed decision making</p> <p>Working with partners and other third parties</p>



What are our conclusions?

Failure to deliver medium term financial balance

Arrangements are adequate and we have identified no issues that would cause us to qualify our conclusion. We wish to bring the following matters to the Committee's attention.

2016/17 Financial Performance and Position

The Council overspent by approximately £5.5 million or 1% against its gross budget. This compared to an overspend of approximately £0.7m or 0.1% of the gross budget in the previous year. This level of overspending was forecast by budget monitoring arrangements from a relatively early stage in the year. The overall overspend on the General Fund resulted in a call on balances and the Council has now been overspending against its front line service budget since 2014/15. The pattern of overspending in 2016/17 is similar to 2015/16 in terms of the three largest service areas of overspending, but the level of overspend on adult social care escalated considerably.

The Capital Programme for 2016/17 as approved in March 2016 was £39.3 million. Subsequently, slippage from 2015/16 of £6.7 million was added, giving an effective opening programme of £46m. The overall programme was reduced during the year mainly as a result of budget being re-profiled into subsequent financial years. If the final capital outturn is compared to the original capital programme the total slippage is 27%. Although this is an improvement on previous years there remains a recognition in the Council's own budget reporting that this level of slippage remains too high.

Medium Term Financial Planning and Cost Pressures within Adult Social Care (ASC)

The Council has a well-established business and medium term financial planning process that considers the significant national and local factors impacting on its spending, revenues and budget. In 2016/17 the most significant budget pressure, in common with many upper tier authorities, was an increased level of net spend on ASC. From early in 2016/17 the service forecast an overspend of approximately £9 million which ultimately was the outturn position, and this was the main driver of the overall General Fund overspend for the year. As part of our work we specifically considered the budget pressures in ASC and related arrangements.

There appears to be a good level of understanding of the cause of the overspending with the cost of provider placements the main driver. There is an active provider market locally for both homecare and residential care, but there are limitations on supply within the Borough and competition from other commissioners and service users. A decision was taken not to build in budgetary provision for inflationary pressures in the provider market for a number of years. These pressures had been successfully offset by the delivery of non-recurrent savings. However, the failure to fully recognise the true underlying cost inflation in the base budget could no longer be managed from the end of 2015/16, with the full year effect felt in 2016/17.

Although it is not yet fully clear, it appears that growth assumptions built into the 2017/18 budget are reasonable and there is now explicit provision in the budget to mitigate against the impact of planned cost savings that are not fully delivered, or not delivered on a recurrent basis. A new social care information system, Mosaic, has also now been introduced which is intended to help with both service and financial management change and improvement. However, as would be expected for a new system, there are implementation challenges and, coupled with the introduction of the new E5 general ledger, this is impacting on how quickly and easily the 2017/18 budget can be monitored. The Council is reliant on both the additional social care council tax precept and improved Better Care Fund (BCF) to finance budget growth in ASC. If either change this may put pressure back on the budget unless other recurrent savings can be identified. The Council is currently in the process of re-tendering its main homecare contract. This provides an opportunity to reduce the relatively high level of spot purchasing of care, which in turn should bring about recurrent cost and quality benefits.



What are our conclusions (contd)

Failure to deliver medium term financial balance (contd)

Medium Term Financial Planning and Cost Pressures within Adult Social Care (contd)

Although there are established integrated Learning Disabilities and Mental Health teams, the BCF and wider Sustainability and Transformation Plan (STP) agenda has not yet resulted in significant changes to operational practice, particularly in terms of joint procurement or commissioning. It is also not clear that BCF and STP are addressing issues in the wider local health economy, such as the level of non-elective admissions to NHS providers. It is likely that the high level of recent senior management turnover at Merton CCG, and a general lack of capacity, has inhibited the rate of progress and change.

Looking forward

As at month 3 in 2017/18 the Council forecasts a net revenue overspend at year end of £1.8 million or 0.3% of its gross budget. This level of overspending could not be supported by the General Fund without taking it to a level the Council considers to be below a prudent minimum, and therefore would need to be funded by increased savings or a call on other earmarked reserves.

The main areas of service overspending are within two directorates - Communities and Housing and Children, Schools and Families. Children, Schools and Families overspending is being driven by a significant overspend on Social Care and Youth Inclusion. Placement budgets are again the key cost pressure. Although some provision for growth has been made in the 2017/18 budget this is not currently considered to be sufficient. In previous periods other underspending had been used to offset inflationary pressures in the base budget, but the actions taken to achieve this were one-off in nature and are therefore no longer having a recurrent effect. Community and Housing overspending is no longer primarily in ASC but is largely being driven by overspending on the housing general fund budget. The main budget pressure in the service is considered by management to be a shortfall in housing benefit subsidy and issues surrounding client contributions following the introduction of Universal Credit.

Recommendations

The Council should:

- Consider areas of ASC related activity where it could further benefit from working in collaboration with its main CCG and other parties to the STP. For example, joint procurement or commissioning.
- Ensure that teams are sufficiently supported and encouraged to make effective use of the new IT systems (Mosaic and the E5 general ledger) for producing timely and accurate financial and operational information.



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 2016/17 with the audited financial statements

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

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We have yet to fully conclude our work in this area and will verbally update the Committee.

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.



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.

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.

Implementation of the new general ledger system has necessitated changes to many of the Council's key internal financial control processes. At commencement of the audit the Council was not able to provide a complete year-end bank reconciliation or reconciliation of the creditors control account. A supported creditors control account reconciliation has now been provided, but there remains an unidentified reconciling item of approximately £285,000. As at 30 August we have not yet been provided with a bank reconciliation that we are able to test and some further adjustments will need to be made to the bank balance on the ledger and cash balance disclosed in the draft financial statements. We will update the Committee verbally with details of progress.

As at 30 August we are therefore not yet able to fully conclude whether there are any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.



08 Appendices








Appendix A

Required communications with the Standards and General Purposes Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Standards 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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	10 March 2017 Standards and General Purposes Committee Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit that were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to overseeing the financial reporting process 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	7 September 2017 Standards and General Purposes Committee Audit Results Report



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Fraud	<ul style="list-style-type: none"> ▶ Asking the Standards and General Purposes Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Regulation, Audit and Accounts Committee responsibility. 	We have made enquiries of management and those charged with governance. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Standards and General Purposes Committee whether any subsequent events have occurred that might affect the financial statements. 	7 September 2017 Standards and General Purposes Committee Audit Results Report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	We have no matters we wish to report subject to completion of our final audit procedures.



Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Standards and General Purposes Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Regulation, Audit and Accounts Committee. 	We have made enquiries of 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. 	7 September 2017 Standards and General Purposes Committee Audit Results Report None identified
Independence	Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,	10 March 2017 Standards and General Purposes Committee Audit Plan 7 September 2017 Standards and General Purposes Committee Audit Results Report
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	7 September 2017 Standards and General Purposes Committee Audit Results Report



Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 22 February 2017.

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 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 Standards and General Purposes Committee on 7 September 2017.

Page 224

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

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

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee - Code work	155,498*	143,498	143,498
Certification of claims and returns	30,555**	28,320	41,242
Non-audit work - Teachers' Pensions	TBC	8,500***	8,500

* The proposed final fee includes an additional amount of £5,000 for work required to gain assurance over the transfer of data to the Council's new general ledger. The proposed final fee also includes a further amount of £7,000 for other additional work required to gain assurance on the financial statements caused by weaknesses and omissions in supporting working papers and the failure to produce complete reconciliations supporting balances in the accounts. The proposed final fee is subject to confirmation by Public Sector Audit Appointments Limited (PSAA).

** The scale fee for the certification of claims and returns has been updated by PSAA subsequent to the planning stage of the audit.




*** Subject to confirmation of 2016/17 work.



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
Full completion of audit testing of the year-end main bank account reconciliation and related reclassifications of balances on the general ledger which continues to be worked on by the Council	Reconciliation to be fully completed by management with resulting adjustments processed on the general ledger and in the financial statements. Complete reconciliation to be tested by EY.	EY and management
Full completion of sample testing of non-system debtors and creditors	Complete analysis of transaction level data to be provided by management together with evidence to support sample testing after sample selection.	EY and management
Full completion of our review of the detailed accounting model supporting accounting entries in the financial statements relating to the Schools Private Finance Initiative (PFI)	Testing to be completed by EY Expert. Queries arising to be resolved by management.	EY and management
Resolution of a small number of residual queries on our testing of expenditure and journals.	Query responses to be provided by management. Testing to be completed by EY.	EY and management
Review of the final version of the financial statements, completion of subsequent events review and receipt of the signed management representation letter.	Final amendments to be made by management and reviewed by EY. Final letter of representation to be signed when the audit is fully complete.	EY and management
Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.	EY to complete full procedures which are currently in progress.	EY and management



Page 225



Accounting and regulatory update



Accounting update

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

Name	Summary of key measures 	Impact on Merton Council 
<i>IFRS 9 Financial Instruments</i> Page 226	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured ▶ How the impairment of financial assets are calculated ▶ Financial hedge accounting ▶ The disclosure requirements for financial assets. <p>▶ Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Remeasure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix D



Name	Summary of key measures 	Impact on Merton Council 
<p><i>IFRS 15 Revenue from Contracts with Customers</i></p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none"> ▶ There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be. 	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> ▶ Disaggregate revenue into appropriate categories ▶ Identify relevant performance obligations and allocate income to each ▶ Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is has yet to commence work in this area due to the timing of implementation.</p>



Accounting and regulatory update (continued)

Progress report on implementation of new standards and regulations

In previous reports to the Standards and General Purposes Committee we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures 	Impact on Merton Council 
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p> <p>Page 228</p>	<ul style="list-style-type: none"> ▶ The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. 	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> ▶ Issued a thought piece on early closedown ▶ As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales ▶ Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we have:</p> <ul style="list-style-type: none"> ▶ Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable ▶ Together with the Council agreed areas for early work which included: <ul style="list-style-type: none"> ○ Testing of major income and expenditure to month 8, ○ Some specific testing of payroll expenditure. ○ Review of major contracts. ○ Review of accounting policies. ○ Significant re-statement of the accounts brought about by changes to the Accounting Code of Practice. <p>It is important that this approach is further developed into 2017/18. In particular we would welcome working with the Council to explore how further assurance could be gained in respect Property, Plant and Equipment during the period.</p>



Management representation letter

Management Rep Letter

Suresh Patel
Executive Director
Ernst & Young
Threefield House,
19 Threefield Ln,
Southampton
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of the London borough of Merton (“the Council”) for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of the London Borough of Merton as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

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

A. Financial Statements and Financial Records

- B.**
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 2016/17.
 2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.



Appendix E

Management Rep Letter

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and Committees held through 2016/17 to the most recent meeting of the Standards and General Purposes Committee on 7 September 2017.
4. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.



Appendix E

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.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 12 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than described in Note 33 to the financial statements, here have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

E. Prior Year Adjustments

1. *[Add a paragraph providing a brief description of each matter giving rise to a restatement and the amount(s) concerned.]*
2. The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's financial statements.

Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have employed or engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Accounting Estimates - Property, Plant and Equipment and Pension Fund Liability Valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the disclosures made in the 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 2016/17
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Appendix E

Management Rep Letter

Retirement benefits

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,

Caroline Holland
Director of Corporate Services

Cllr Peter McCabe
Chair of Standards and General Purposes Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

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

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

© 2017 EYGM Limited.
All Rights Reserved.

ED None

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

ey.com

This page is intentionally left blank