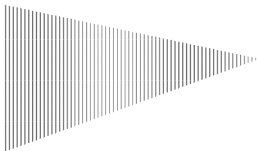


# Borough Council of King's Lynn and West Norfolk

Audit results report for the year ended 31 March 2013

~~20 August~~ 11 September 2013 - ~~Draft~~



**EY**

Building a better  
working world



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## Private and confidential

Audit and Risk Committee  
Borough Council of King's Lynn & West Norfolk  
King's Court  
Chapel Street  
King's Lynn  
PE36 1EX

20-August11  
September 2013

Dear Sirs,

## Audit results report

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 Authority's financial position and results of operations for 2012/13. At the time of writing we are finalising our audit procedures and a number of aspects of our review remain in progress. This report therefore represents the latest position at 20-August11 September 2013. The key outstanding matters are detailed within this report. We ~~will~~ verbally updated the Audit and Risk Committee on 9 September on progress, and ~~have~~ issued ~~this~~ revised report shortly in advance of the 16 September Cabinet meeting. This ~~updated report therefore will~~ reflect the results of the outstanding work ~~and updates the Cabinet on matters arising since our previous draft dated 20 August. We anticipate that any matters of significance that arise between 11 September and the date the financial statements are signed will be discussed with officers and the Council Leader under delegated arrangements.~~

We intend to issue our final conclusion after the September Audit and Risk Committee and in advance of the statutory 30 September deadline.

The audit is designed to express an opinion on the 2012/13 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and material internal control findings.

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Authority's financial statements and an unqualified value for money conclusion. However, until we have completed all our outstanding procedures, it is possible that further matters may arise.



This report is intended solely for the information and use of the Audit and Risk Committee and the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Risk Committee meeting scheduled on 9 September 2013.

Yours faithfully  
For and on behalf of Ernst & Young LLP

Rob Murray  
Ernst & Young LLP  
United Kingdom  
Enc.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

### Financial statements

Following the performance of the procedures outlined in our Audit Plan, we currently anticipate issuing an unqualified opinion on the Authority's financial statements. However, a number of aspects of our work remain in progress at 20 August 2013. This includes **residual** elements of our work connected with the housing and council tax benefit, National Non-domestic rates (NNDR) and council tax systems which underwent a mid-year system change, and are higher risk. Officers are working with us to resolve our queries. Our main findings in relation to the areas of risk included in our Audit Plan are set out below.

### Significant risks:

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#### Revenues and benefits mid-year system change: Audit findings and conclusions

At ~~20 August~~ **11 September** 2013 our work is well progressed, but certain aspects of our planned audit work remain in progress. Findings and comments to date are:

- ▶ Work on understanding the Council's risk assessment process and understanding the old and new systems is complete. There are no matters arising from this that we wish to raise with you.
  - ▶ Work on considering the data conversion processes is essentially complete. Although the process has not been straightforward for the Council, our review has not detected a risk of material misstatement for the financial statements.
  - ▶ We have considered the methodology used to produce the housing
-

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benefits claim based on output from both systems. As part of this the Council assessed the impact of not applying system upgrades to the old Northgate system. We do not consider that the overall methodology poses a risk of material misstatement to the financial statements. We have also applied predictive and other analytical procedures to expenditure on housing benefits. At ~~20 August~~ 11 September certain elements of this work are still in progress.

- ▶ Elements of our substantive testing remains in progress at ~~20 August~~ 11 September as these systems have a wide ranging impact in the financial statements, including the Council's Collection Fund. Key points for the Committee to note are set out later in this report.

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#### Other financial statement risks:

##### Joint arrangements: Audit findings and conclusions

~~At 20 August we are awaiting~~ We received the Council's assessment of the NORA joint arrangement and associated financial transactions with Norfolk County Council (the King's Lynn Development Partnership) under accounting standards on 2 September. The Council originally assessed the arrangement as a 'jointly controlled operation'. Our view, based on the 8 October agreement, is that these are 'jointly controlled assets'. We ~~will~~ provided officers with our view on 10 September and officers are currently assessing the necessary accounting revisions to appropriately reflect the arrangement as one of jointly controlled assets. In broad terms the Council will need to remove 50% of the carrying value of the enhanced land, and our understanding is that this would amount to approximately £0.55 million. ~~a verbal update to the 9 September Audit and Risk Committee and issue a revised report shortly in advance of the 16 September Cabinet meeting. This will reflect the results of the outstanding work.~~

##### Risk of misstatement due to fraud or error: Audit findings and conclusions

We assessed the risk of fraud as part of our planning processes. There are no matters that we wish to raise with you.

Our substantive audit testing to date has not detected any incidences of fraud. Whilst our procedures have identified some errors (see section 8 of this report), these do not appear to be as a result of management bias. We have applied professional scepticism when carrying out our work, including the consideration of management estimation techniques and their selection of accounting policies.

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##### Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion. Elements of this work remain in progress at ~~20 August~~ 11 September ~~and we will provide an update at the 9 September Audit and Risk Committee meeting.~~

### Whole of Government accounts

We have not yet completed the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. The Council submitted its consolidation pack on 15 August 2013, a day after the timetable set by DCLG. We plan to complete our work to meet the 4 October deadline.

### Control themes and observations

There are no controls observations that we wish to bring to your attention at 20 August 2013.

### Summary of audit differences

Our audit work to date has identified a number of misstatements in the financial statements presented for audit, as summarised below. As our work is still being progressed in a number of areas we will provide a verbal update to the 9 September Audit and Risk Committee meeting.

- ▶ Uncorrected misstatements increase useable reserves by £~~39038~~<sup>525473</sup>k of which £~~39038~~ relates to current-year differences. The uncorrected current year misstatements relate ~~to one actual error and to a projected two projected rather than an actual errors.~~ to one actual error and to a projected two projected rather than an actual errors.
- ▶ Management have agreed to correct a number of misstatements. These adjustments are summarised at section 8 of this report but some are still being finalised at ~~20 August~~<sup>11 September</sup>. Some of the identified adjustments will result in a change in useable reserves. ~~We will provide an updated position to the 9 September Audit and Risk Committee meeting.~~

## 2. Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued on 20 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan, with the following exceptions:

Our Audit Plan indicated that we would consider relying on controls over the procure to pay, accounts receivable and cash processing systems where it

was efficient and appropriate to do so. We subsequently decided to adopt a fully substantive approach to our audit following detailed planning considerations. This approach provides a good level of information on the Council's financial transactions on which to base our subsequent audits.



### 3. Significant findings from the financial statements audit

In this section of our report, we outlined the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

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#### Significant risk: Revenues and benefits mid-year system change

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##### Description:

The Council changed its systems for processing housing and council tax benefits, National Non-Domestic rates (NNDR) and Council Tax in July 2012.

The financial statements are therefore based on information from the old (Northgate) system and the new (Civica OPENrevenues) systems.

This presents a risk over the completeness and accuracy of data transfer, and the resultant figures included in the 2012/13 financial statements.

Our approach has focussed on

- ▶ understanding the process the Council has undertaken to identify risks connected with the systems transition, including the role of Internal Audit.
- ▶ understanding the system and controls in both the old and new systems and walking these through. This is necessary as data generated in both the old and new systems impacts on the financial statements.
- ▶ specifically considering the data conversion process and how the Council has reconciled the old and new systems.
- ▶ considering the risks associated with the production of the housing benefits claim, which drives the income recognised in the financial statements.
- ▶ substantively testing the financial statements entries. Given the inherent risks of the systems transition, and the lack of controls testing by Internal Audit on which we might normally place reliance, we consider that this approach is more effective. This will include the use of predictive analytical techniques in addition to tests of details.

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##### Audit findings and conclusions:

At ~~20 August~~ 11 September 2013 certain aspects of our planned audit work remain in progress. Findings and comments to date are:

- ▶ Work on understanding the Council's risk assessment process and understanding the old and new systems is complete. There are no matters arising from this that we wish to raise with you.
  - ▶ Work on considering the data conversion processes is essentially complete. Although the process has not been straightforward for the Council, our review has not detected a risk of material misstatement. The
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Council has had to be pragmatic in dealing with conversion issues in some instances, and this may lead to reporting issues when we audit the Council's housing benefits and NNDR grant returns. Findings from this work will be reported to the Audit & Risk Committee by early 2014.

- ▶ We have considered the methodology used to produce the housing benefits claim based on output from both systems. As part of this the Council assessed the impact of not applying system upgrades to the old Northgate system. We do not consider that the overall methodology poses a risk of material misstatement to the financial statements, although, as noted above, there may be reporting issues when we audit the Council's housing benefits grant claim. At ~~20-August~~ 11 September residual elements of this work are still in progress.
- ▶ Elements of our substantive testing remains in progress at ~~20-August~~ 11 September as these systems have a wide ranging impact in the financial statements, including the Council's Collection Fund. Key points for the Committee to note at this stage are:
  - ▶ ~~We have applied predictive analytical techniques to the income from NNDR, but we currently have an unresolved material variance. We are continuing to work on this, but may need to carry out additional transactional testing.~~
  - ▶ We are currently unable to agree the Council's balance sheet entries for council tax and NNDR where the Council effectively acts as a collecting agent. Officers ~~provided a response to our initial queries but have yet to consider follow up queries raised with them on 20-August which we have yet to assess.~~
  - ▶ The financial statements presented for audit were based on a draft version of the NNDR grant claim. Officers ~~are currently revising~~ the financial statements to reflect the final unaudited claim, with the amount paid to the NNDR pool decreasing by £759k. We have seen this amendment in a subsequent draft of the financial statements (3 September). This is included as an agreed adjustment in Section 8. We were made aware on 11 September of a further amendment to the NNDR grant claim, and the associated accounting entries, but have yet to receive information on this and are currently unable to assess the impact. We understand that the change is not material.

#### Other financial statement risk: Joint arrangements

##### Description:

The Council has entered into a number of joint arrangements including the Nar Ouse Regeneration Agreement (NORA) with Norfolk County Council, and the North & West Norfolk Revenues and Benefits Joint Committee with North Norfolk District Council.

Such arrangements can be complex and need to be appropriately assessed under accounting standards, Interests in Joint Ventures to ensure that the Council's own financial statements are appropriately prepared, and that there is no requirement for consolidated financial statements to be prepared.

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**Audit findings and conclusions:**

The North & West Norfolk Revenues and Benefits Joint Committee have experienced a number of operational difficulties in terms of merging the two councils' data. At the July 2013 meeting of the joint committee it was agreed to further postpone the operation of a joint budget during 2013/14. The Council has not yet formally assessed the arrangement under accounting standards, but given that it is not yet operating as the intended joint committee this does not impact the financial statements.

~~We received the Council's assessment of the NORA joint arrangement and associated financial transactions with Norfolk County Council (the King's Lynn Development Partnership) under accounting standards on 2 September. The Council originally assessed the arrangement as a 'jointly controlled operation'. Our view, based on the 8 October agreement, is that these are 'jointly controlled assets'. We provided officers with our view on 10 September and officers are currently assessing the necessary accounting revisions to appropriately reflect the arrangement as one of jointly controlled assets. In broad terms the Council will need to remove 50% of the carrying value of the enhanced land, and our understanding is that this would amount to approximately £0.55 million. At 20 August we are awaiting the Council's assessment of the NORA joint arrangement and associated financial transactions with Norfolk County Council (the King's Lynn Development Partnership) under accounting standards. We will provide an update to the 9 September Audit & Risk Committee meeting.~~

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**Other financial statement risk: Risk of misstatement due to fraud and error****Description:**

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Auditing Standards specifically require us to consider the risk from management override and revenue recognition.

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**Audit findings and conclusions:**

We assessed the risk of fraud as part of our planning processes. This

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included:

- ▶ Inquiry of management and the Internal Audit Manager about risks of fraud and the controls put in place to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.;
- ▶ Specifically considering the risk of fraud in various categories of income and expenditure.

There are no matters that we wish to raise with you.

Our substantive audit testing to date has not detected any incidences of fraud. Whilst our procedures have identified some errors (see section 8 of this report), we have concluded that these are not as a result of management bias. We have applied professional scepticism when carrying out our work, including the consideration of management estimation techniques and their selection of accounting policies.

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As required by ISA (UK&I) 260 and other ISAs specifying communication requirements we have set out comments in the table below about:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures.
- ▶ Significant difficulties encountered during the audit.
- ▶ Significant matters, if any, arising from the audit that were discussed with management.
- ▶ Other matters if any, significant to the oversight of the financial reporting process.
- ▶ Findings and issues regarding the opening balance on initial audits.

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**Policy/practice/finding:**

**Financial statement disclosures:**

As this was the first year of our appointment we carried out a detailed review of the Council's financial statements, including the Explanatory Foreword and the Council's Annual Governance Statement. We provided officers with a number of comments and suggestions which they are continuing to work through at 20 August 2013. Officers have committed to making a number of changes in a subsequent version of the financial statements. We will need to check these to a fully updated version of the financial statements in due course.

**EY comments:**

We have not sought to refer to these any further in this report but key changes agreed include:

- ▶ Additional disclosures and some corrections to the information in the Explanatory Foreword;
-

- ▶ Additional disclosures in the Annual Governance Statement regarding a limited assurance Internal Audit report containing high risk recommendations that are not yet sufficiently progressed
- ▶ Presentation of the Cash Flow Statement and related notes including the comparatives
- ▶ Correction of the officers' remuneration note
- ▶ Correction of the termination benefits note
- ▶ Revisions to the joint arrangements note
- ▶ Revisions to the related parties note
- ▶ A number of corrections to the grant income disclosure note including a £1.0 million change to the amount disclosed from the DWP Housing Benefit Unit
- ▶ £1.2 million correction to the Capital Financing Requirement note
- ▶ £2.7 million correction to the finance leases note where owned property built on leased land was included as an asset held under a finance lease
- ▶ £9.8 million correction to the lessor element of the leases note regarding the future lease payments receivable under non-cancellable operating leases
- ▶ Changes to the Movement in Reserves Statement (MiRS) and the supporting notes

#### **Grants – receipts in advance:**

The Council's financial statements include long term creditors of £2,198k relating to grants received in advance.

The Code of Practice requires that grants are recognised in the CIES when received unless there are conditions attached that give the grantor a right of return if the conditions are not met. In such cases, where the expenditure has not yet been made, then the Council should include an earmarked reserve for the expenditure yet to be incurred.

#### **EY comments:**

Our sample testing detected:

- ▶ An error of £119k in a Care and Repair contract amount that should not have been included as there are no conditions attached.
- ▶ Errors in certain s106 agreements tested, where the amounts relate to maintenance and there is no indication of the contracts including a condition to repay.

On 20 August officers have reviewed the population of grants included in grants receipts in advance and have determined that, in total, £1,227k do not meet the classification criteria and should be released through the Consolidated Income and Expenditure Account and carried as earmarked reserves. We are working with us to consider whether our initial conclusions mean we will need to extend our sample testing in this area.

We understand that officers have agreed to amend for the any errors and this that are found as they examine the remaining population. This issue is therefore included as an agreed amendment in Section 8 of this report.

At 11 September we are finalising residual queries with officers on a limited number of grants included as short term creditors.

The error was predominantly in respect of 'old' contributions. Finance officers have already determined to request copies of all s106 agreements to enable them to check the position on conditions. This should therefore ensure that the accounting treatment for grants is in accordance with the Code of Practice and prevent similar errors in future years.

### **Recharges and Corporate & Demographic Core charges:**

Our initial analytical review procedures detected some material variances between 2012/13 and 2011/12 under the various service lines in terms of both income and expenditure.

#### **EY comments:**

##### *Recharges:*

Discussions with officers indicated that they had revised the accounting for recharges in 2012/13. From these discussions it was apparent that the 2011/12 consolidated income and expenditure account (CIES) included 'grossing up' errors. These errors occur when a cost centre recharges expenditure to another cost centre, but instead of accounting for the recharge as a reduction in expenditure, it accounts for the recharge as income. This is not true third party income and should not have been recognised as such in the financial statements.

The Council has subsequently carried out additional work to calculate the impact this had on the 2011/12 comparatives in the CIES. The impact is material overall and ~~„whilst we are still concluding our review of their revised workings,~~ we have agreed that this error requires a prior period adjustment (PPA) under International Accounting Standard 8 (IAS 8) 'Accounting Policies, Changes in Accounting Estimates and Errors'.

~~WWhilst, at 20 August we are continuing to check the proposed correction,~~ we have included this as an agreed amendment in Section 8 of this report.

The correction impacts a number of the service lines for income and expenditure. The net impact is that both reported income and reported expenditure for cost of services will reduce by £882k. However, at an individual service line the changes are larger with, for example, Cultural services and Environmental Services reported income and expenditure changing by over £1 million. There is, however, no impact on the overall net cost of services for each line as a result of this error.

##### *Corporate and democratic core charges:*

It was also apparent that the Council had not classified all expenditure accurately in 2011/12. This issue relates to expenditure accounted for relatively late in the financial statements close down process such as capital impairment costs. Officers have revisited this as part of the overall PPA calculations and determined that £1,290k of Corporate and Democratic Core costs should have been included in other service lines. ~~WAt 20 August we are continuing to check the proposed correction, but~~ we have included this as an

agreed amendment in Section 8 of this report.

There is no overall impact as a result of both these errors on the Council's reported surplus or deficit on the provision of services, or on reported reserves.

The Council ~~will need to~~has drafted an amended Note 1 to reflect the prior period adjustment. We ~~have reviewed this and suggested some minor changes await this revised note at 20 August 2013.~~

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#### **Parish Special Expenses:**

The Council has charged £558k of parish special expenses to the Corporate & Democratic Core in 2012/13.

#### **EY comments:**

As part of the consideration of the 2011/12 PPA referred to above we considered the treatment of parish special expenses and certain support service costs in the 2012/13 CIES. Parish special expenses have been included in corporate and democratic core costs rather than being allocated to the appropriate functions. Additionally certain other support service costs have not been appropriately allocated to the services they support. The Council has prepared a ~~proposed~~ revision to the 2012/13 CIES. Although the movements on total gross income and gross expenditure are trivial, the income relating to Corporate and Democratic Core has changed by a significant amount (£553k). ~~Our work on this is currently being concluded at 20 August 2013, but we~~ have included this as an agreed amendment in Section 8 of this report.

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#### **Assets held for Sale:**

The Council classifies £4,065k of assets as 'Assets held for Sale' (AhfS). Under the Code assets can only be classified as 'Assets held for Sale' if they meet strict criteria under the Code:

- ▶ available for immediate sale in current condition
- ▶ sale highly probable, with an active programme to locate a buyer which must have been initiated
- ▶ asset must be being actively marketed at a reasonable price
- ▶ expected to complete within a year

We tested three significant assets classified as held for sale ~~totalling £3.4 million (one of which was a sale split between two purchasers) from the total of £4.1 million. Although this work is still being concluded, w~~ Of the sample tested ~~w~~we detected an 88% error rate as:

- ▶ two of the assets (land at Rollesby Road £320k and land at Alexandra Road £2,050k) were not available for immediate sale in their current condition as they were dependant on planning permission being awarded.
- ▶ one of the assets (land at Speedway £600k) was classified as an AhfS as a result of a speculative enquiry which has subsequently fallen through.

#### **EY comments:**

Officers have agreed to amend for the errors in the classification, and this is

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included as an agreed amendment at Section 8 of this report.

~~Given the errors detected in our sample we extended our testing to consider a further asset classified as assets held for sale and concluded that it was correctly classified. we are performing additional work to satisfy ourselves that the remaining £695k does not contain significant errors. We will provide an update to the 9 September Audit Committee meeting. This enabled us to project the error rate over the untested population. The projected error is £291k and this has been included as an uncorrected misstatement at Section 8 of this report.~~

Officers are already considering how they will improve the assessment methodology for AhfS for 2013/14.

**Related parties:**

~~WAt 20 August we received await~~ responses to a final query regarding the completeness of the related party disclosures on 10 September. Our audit work on this is currently being finalised.

**EY comments:**

~~We will provide an update to the Audit & Risk Committee on 9 September. The Council has agreed to revise the financial statements related parties note for two grants where members/officers had an interest, and for transactions with Freebridge Community Housing Limited.~~

**Leases and asset disposals:**

We were aware from the Council's committee minutes that two land disposal transactions had been made under a lease.

Our work on leases resulted in a number of material disclosure changes to the financial statements.

**EY comments:**

On reviewing the two land disposal transactions we determined that one of them, realising £450k (land with net book value of £497k) was a 99 year operating lease. The asset was therefore incorrectly shown as a full asset disposal, realising a £47k loss on disposal. The correct treatment under IFRS would have been to retain the asset within long term assets and create a lease creditor for the sale proceeds, releasing them evenly over the 99 year lease. Officers have determined not to adjust for this error, and this has been included as an uncorrected misstatement at Section 8 of this report.

Officers should consider whether the available lease information is adequate to enable them to make the correct disclosures in the financial statements as required by the Code of Practice.

**Audit difficulties:**

The audit has been more protracted than we had envisaged. Key causes



include:

- ▶ The mid-year benefits and revenues changes which have caused significant additional audit work.
- ▶ More time taken than envisaged to complete our overall client understanding and familiarisation, including understanding working papers. There are some instances where working papers could be adapted or improved to better meet our requirements. This is not unusual in the first year of an audit engagement, where officers and auditors need to understand each other's expectations. Officers have already indicated that they are keen to work with us to improve working papers for the 2013/14 audit.

**EY comments:**

Once the audit ~~draws near to its~~ concluded conclusion, we will assess the fee impact of the audit difficulties experienced. We will discuss this with officers before raising our request for a formal fee variation with the Audit Commission. We will report the outcomes to the Audit and Risk Committee via our Annual Audit Letter in due course.

Despite the difficulties we have found Council officers to be proactive and responsive, and look forward to our continued working relationship.

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## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We did not identify any significant risks relevant to our conclusion on the Council's arrangements as part of our audit planning. We continued to monitor the Council's arrangements throughout our audit, including achievement of the 2012/13 budget, financial planning for 2013/14 and 2014/15, and progress on a number of key developments the Council is undertaking, including those connected with the changes to Local Council Tax Support and business rates from April 2013. We have no matters we wish to raise with you at ~~20 August~~ 11 September.

## 5. Control themes and observations

As part of our work, 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 of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

There are no controls observations that we wish to bring to your attention at 20 August 2013. The committee should be aware that we decided to adopt a fully substantive approach to our audit following detailed planning considerations. This approach addresses the significant risk referred to earlier in this report and also provides a good level of information on which to base our subsequent audits.

We will work with officers, including internal Audit, to consider where placing controls reliance may become increasingly effective for future audits.

## 6. Status of work

### Financial statement audit

Our audit work in respect of our opinion on the Authority's financial statements is substantially complete, although a number of areas are still being progressed or resolved at ~~11 September~~ 20 August. Given this, we have not sought to list all outstanding areas of work at the date of this report here but have highlighted the main areas for your attention.

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#### Item: Financial statements

- ▶ Incorporation of EY review comments on disclosure notes (~~partially significantly~~ complete at ~~11 September~~ 20 August 2013 based on officer comments)
- ▶ Incorporation of the ~~requested revisions to the~~ prior period adjustment, ~~including the new~~ note and the revisions to the comparatives in the 'Amounts Reported for Resource Allocation Decisions' note
- ▶ Incorporation of all other agreed audit amendments
- ▶ Incorporation of any additional changes arising as audit work is completed
- ▶ Agreement of the revised disclosures with EY

#### Actions to resolve:

- ▶ Officers are to prepare an updated version of the financial statements to be issued to the Cabinet meeting on 16 September. ~~Given that some work is still being progressed at 11 September it is likely that some~~ further changes ~~will be are~~ likely ~~before the financial statements can be finalised for signature. A then~~ approval will ~~therefore need to~~ be sought for delegated authority to approve the financial statements to meet the 30 September deadline.
- ▶ EY will review the 'final draft' version in advance of the financial statements being approved.

#### Responsibility:

Management and EY

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#### Item: Audit testing

~~Work on the following areas has not yet commenced:~~

- ~~▶ Cash Flow statement and associated notes~~
- ~~▶ Agreement of investments to supporting confirmations~~
- ~~▶ Agreement of the Amounts Reported for Resource Allocation Decisions' note~~
- ~~▶ Agreement of financial instrument disclosures~~

A number of ~~other~~ audit areas are substantially complete at 20 August, but have certain elements outstanding which we continue to progress. ~~Key~~

~~matters for the Audit & Risk Committee to be aware of are:~~

~~Leases—our initial work detected an error in the leases note. In some instances we are still awaiting the Council's assessment of the lease under accounting standards to review.~~

~~Our agreement of pension fund entries is not yet complete~~

**Actions to resolve:**

EY to progress residual areas ~~of testing~~ as a matter of priority. ~~We will provide a verbal update at the 9 September Audit and Risk Committee meeting.~~

**Responsibility:**

EY and management (in terms of responding to queries)

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**Item: Letter of representation**

**Actions to resolve:**

Draft ~~was to be~~ tabled at Audit and Risk Committee on 9 September 2013.

Arrangements to be put in place for agreement with the Leader in advance of the financial statements being signed for the 30 September deadline.

**Responsibility:**

Management, Audit Committee and Leader

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**Item: Finalisation of the financial statements to meet the 30 September statutory deadline**

**Actions to resolve:**

- ▶ Reliant on completion of areas noted above
- ▶ Approval of financial statements ~~by by Cabinet, or~~ appropriate delegation to the Leader
- ▶ Financial statements re-certified by RFO

**Responsibility:**

Management, Audit Committee, Cabinet, Leader and EY

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**Item: Whole of Government Accounts**

**Actions to resolve:**

- ▶ EY to audit the WGA consolidation pack to meet 4 October 2013 deadline

**Responsibility:**

EY and management (in terms of responding to queries)

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On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Authority's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

**Economy, efficiency and effectiveness**

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is substantially complete.

On the basis of our work performed to date, we expect to present an unqualified value for money conclusion in regard to the Authority's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

## Objections

We have not received any formal objections to the 2012/13 financial statements from members of the public.

We have dealt with two members of the public on sundry enquiries. This is outside the scope of our audit fee.

## 7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £	Planned fee 2012/13 £	Scale fee 2012/13 £	Explanation of variance	Actual Fee 2011/12 £'000
<b>Total Audit Fee – Code work</b>	<b>TBC – see note 1</b>	67,488	67,488	<b>TBC – see note 1</b>	126,352
Certification of claims and returns	<b>TBC – see note 2</b>	30,100	30,100	<b>TBC – see note 2</b>	52,940

### Note 1: audit fees

Our Audit Plan already identified some areas which represent a change in audit scope to the risks and assumptions made by the Audit Commission in setting the 2012/13 audit scale fee. These include the change in revenues and benefits systems during the year and the absence of Internal Audit controls testing of those systems during 2012/13 and the increased number of developments the Council has entered into.

At ~~20 August~~ 11 September we are still completing additional audit procedures to ensure the financial statements are free from material error and misstatement, and to comply with our duties as the Council's external auditor. As this work is still being completed we have yet to fully assess the impact of this for our audit fee. We will discuss and agree a variation to our audit fee with Council's management before seeking to agree a formal scale fee variation with the Audit Commission. We will also need to consider the impact of other difficulties encountered during the audit as set out in section 3 of this report.

As we informed you in our Audit Plan, fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee. We have dealt with correspondence from two members of

the public as referred to earlier in this report, and this will be included in the revised proposed fee.

We will update the Audit and Risk Committee at a later date ~~as~~ final fees will be summarised in our 2012/13 Annual Audit Letter.

**Note 2: certification of claims and returns**

Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13. The Audit Commission's Programme of Fees and Work Programme 2012/13 states that the indicative (scale) grant fee is based on the latest actual certification fees for 2010/11. We consider that the change in revenues and benefits systems part way through 2012/13 will impact our fee for the certification of the housing benefits claim and the National Non-Domestic Rates Claim, and that this will lead to a variation from the indicative scale fee. Our final fees for the certification work will be reported to you via our 2012/13 Annual Certification of Claims and Returns Report in early 2014.

## 8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either '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.

We have included all amounts greater than £500,000 relating to the Council in our summary of misstatements below.

We highlight in particular the following misstatements identified during the course of our audit to date, although ~~limited~~ elements of our work are ongoing at ~~20 August~~ 11 September. We ~~are awaiting received~~ a fully revised set of financial statements ~~on 3 September but have not yet fully~~ checked that expected agreed amendments have been corrected by management. ~~We will provide a verbal update to the 9 September Audit and Risk Committee.~~

- ~~▶ Presentational classification error within the service headings of the Consolidated Income and Expenditure Statement (CIES) – £[awaiting information from officers at 20 August].~~
- ▶ Inclusion of NNDR balances to agree to the final unaudited pool payment of £38,685k. Officers prepare the financial statements based on an initial draft of the NNDR3 return in order to meet the 30 June deadline for publishing the unaudited financial statements. The revision reflects changes made to the initial version of the NNDR3 return as part of finalising the return. ~~We were made aware on 11 September of a further~~

amendment to the NNDR grant claim, and the associated accounting entries, but have yet to receive information on this and are currently unable to assess the impact. We understand that the change is not material.

- ▶ Inclusion of £2,970k as 'Assets held for Sale' when they failed to meet the criteria under the Code of Practice. ~~At 20 August we are extending our testing of Assets held for Sale because of the errors detected. We will verbally update the 9 September Audit and Risk Committee meeting.~~
- ▶ Parish special expenses and certain support service costs have been included in corporate and democratic core costs rather than being allocated to the appropriate functions or services they support. Although the movements on total gross income and gross expenditure are trivial, the income relating to Corporate and Democratic Core has changed by a significant amount (£553k). ~~Our work on this is currently being concluded at 20 August 2013.~~
- ▶ Prior period 'grossing up' errors relating to recharges. ~~At 20 August we are continuing to check the proposed correction, which impacts a number of the service lines for income and expenditure.~~ The net impact is that both reported income and reported expenditure for cost of services ~~have~~will reduced by £882k. However, at an individual service line the changes are bigger, with Cultural services and Environmental Services reported income and expenditure changing by over £1 million. There is no overall impact on the Council's reported net cost of services for 2011/12 as a result of this error.
- ▶ Prior period 'Corporate & Democratic Core classification corrections of £1,290k. ~~At 20 August we are continuing to check the proposed correction, which~~The adjustment impacts a number of the service lines for expenditure, but has no overall impact on the Council's total reported gross expenditure for cost of services in 2011/12.
- ▶ Reclassification of £1,227k grants received in advance (unapplied grants) to earmarked reserves, via the Consolidated Income and Expenditure Account.
- ▶ Removal of 50% of the NORA enhanced land value to reflect the jointly controlled asset with Norfolk County Council. At 11 September the Council are determining the proposed accounting corrections so that they can put the adjustment through a further version of the financial statements, but a broad estimate is that the Council's property, plant and equipment will reduce by £0.55 million.

Officers have also agreed in principle to correct a number of errors that are individually not material.

In addition to the matters noted above which impact the primary financial statements we have agreed a number of disclosure changes with officers to ensure that the financial statements comply with the Code and are materially accurate. Key changes are set out in section 3 of this report.

In addition we highlight the following misstatements which are not corrected by management:

Uncorrected misstatements	Assets current	Assets non-current	Liabilities current	Liabilities non-current	Income	Expenses
	Debit/ (Credit ) £'000	Debit/ (Credit ) £'000	Debit/ (Credit ) £'000	Debit/ (Credit ) £'000	Debit/ (Credit ) Current period £'000	Debit/ (Credit ) Current period £'000
Known differences:						
▶ <u>Land disposed of under an operating lease which was incorrectly shown as a full asset disposal realising a £47k loss on disposal</u>		497	(5)	(440)	(5)	(47)
▶ <del>At 20 August there are no differences that officers have not agreed to correct, other than trivial errors</del>						
Judgemental differences:						
▶ Projected error relating to an error identified in expenditure cut off testing (actual error was trivial at £1,125, but formed part of our sample). Projecting an error is in accordance with EY			338			(338)



methodology.

▶ <u>Projected error relating to an error identified in classification of assets held for sale. Projecting an error is in accordance with EY methodology.</u>	<u>(291)</u>	<u>291</u>				
Balance sheet totals	<del>(291)</del> <u>38</u>	<del>-788</del>	<del>-333</del>	<del>-(440)</del>		
Income effect of uncorrected misstatements					<del>-(5)</del>	<del>(38538)</del>
Cumulative effect of uncorrected misstatements before turnaround effect	<del>338</del> <u>(291)</u>	<del>-788</del>	<del>-333</del>	<del>-(440)</del>	<del>-(5)</del>	<del>(38538)</del>
Turnaround effect See note 1 below				135		(135)
Cumulative effect of uncorrected misstatements, after turnaround effect	<del>338</del> <u>291</u>	<del>788</del>	<del>-333</del>	<del>435</del> <u>(305)</u>	<del>-(5)</del>	<del>(520473)</del>

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2013.

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period. These were uncorrected errors identified by the predecessor auditors. We have exercised our professional judgement in determining that three errors should be included here:

- A £199k overstatement of a 2011/12 VAT debtor identified by the predecessor auditors.
- A £200k understatement of 2011/12 creditors identified during audit testing by the predecessor auditors.
- Offset by a £268k 2011/12 creditor that the predecessor auditors considered was not payable.

## 9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 20 March 2011. We complied with the Ethical Standards for Auditors and the requirements of the Standing Guidance and 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 that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so ~~at the forthcoming meeting of the Audit Committee on 9 September 2013.~~

## Appendix A Required communications with the Audit Committee

There are certain communications that we must provide to the audit committee. These are detailed here:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit results report
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit results report
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine</li> </ul>	Audit results report

Required communication	Reference
<p>whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</p> <ul style="list-style-type: none"> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ 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</li> </ul>	Audit results report – no matters to report

Required communication	Reference
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan and update in section 9 of this report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Audit results report – no matters to report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit results report</p>
<p><b>Opening Balances</b></p> <ul style="list-style-type: none"> <li>▶ Findings and issues regarding the opening balance of initial audits</li> </ul>	<p>Audit results report</p>
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body)</li> </ul>	<p>Audit Plan and Audit results report; to be updated in subsequent reports (Annual Audit Letter and Annual Certification of Claims and returns Report)</p>
<p><b>Summary of certification work undertaken</b></p> <ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	<p>Annual Certification Report – to be issued January 2014</p>

## Appendix B Letter of representation

[To be prepared on the Council's letterhead]

[Date]

Ernst & Young LLP  
One Cambridge Business Park  
Cambridge  
CB4 0WZ

This representation letter is provided in connection with your audit of the financial statements of the Borough Council of King's Lynn & West Norfolk ("the Council") for the year ended 31 March 2013. 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 financial position of the Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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 (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
2. We acknowledge 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, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United

Kingdom 2012/13 and are free of material misstatements, including omissions. 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. 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 2012/13 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 misstatements]

#### **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 disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

#### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected noncompliance 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 as agreed in terms of the audit engagement.
  - ▶ 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 (Cabinet, Audit and Risk Committee and Performance and Resources Committee) held through the year to the most recent meeting on the following date: *[list date – prior to signing the letter of representation]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We 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 Note35 to the financial statements all guarantees that we



have given to third parties.

#### **F. 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.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - ▶ We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - ▶ The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H. 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.

#### **Comparative information – corresponding financial information**

*[Add a paragraph providing a brief description of each matter giving rise to a restatement and the amount(s) concerned – to be agreed with EY in advance of the letter being finalised.]*

The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's financial statements.

*Yours Faithfully,*

---

Chief Financial Officer

I confirm that this letter has been discussed and agreed at the Cabinet on  
16 September 2013

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Leader

EY | Assurance | Tax | Transactions | Advisory

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