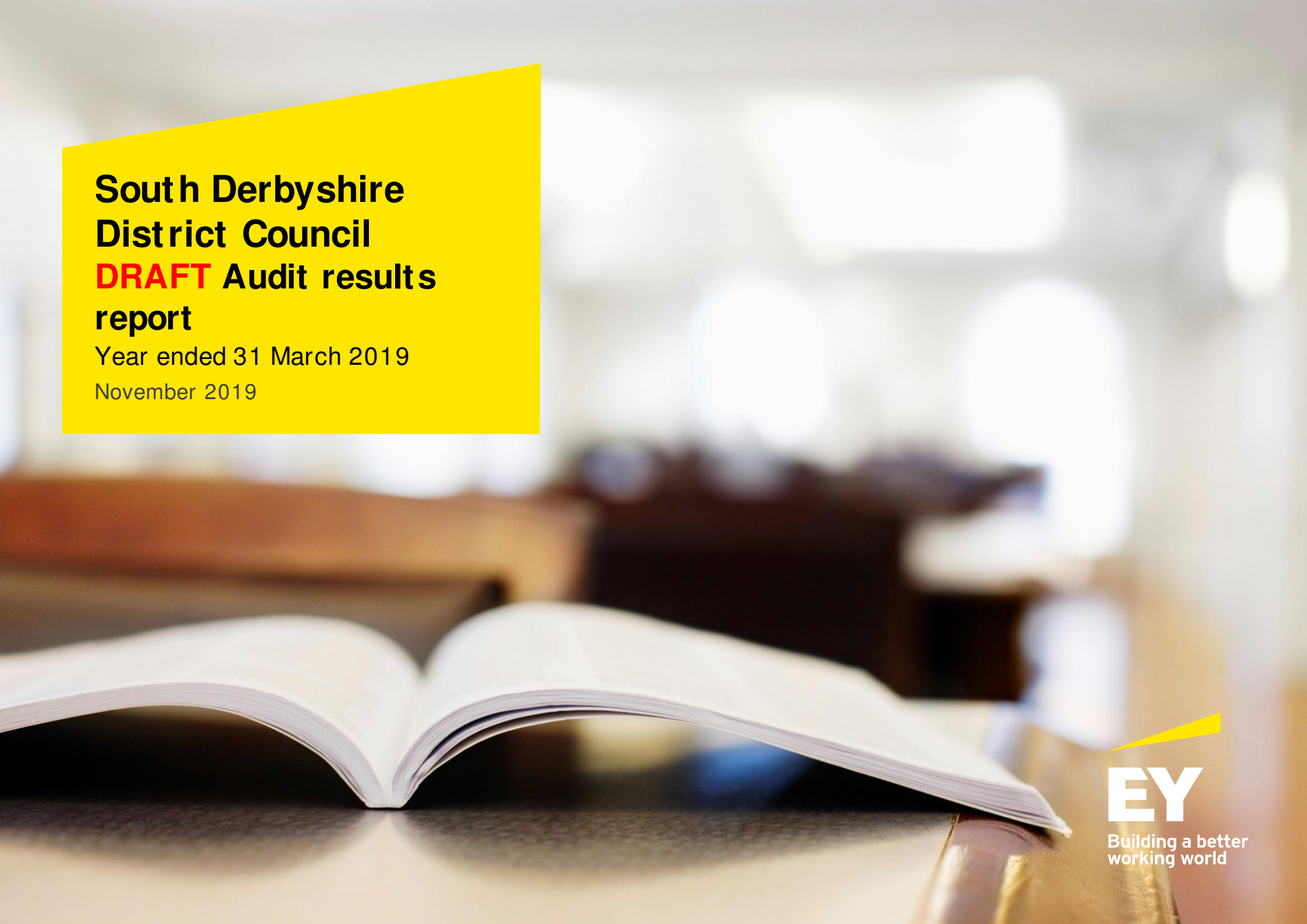
South Derbyshire District Council DRAFT Audit results report

Year ended 31 March 2019

November 2019



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20 November 2019

Dear Audit-Sub Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit-Sub Committee. This report summarises our preliminary audit conclusion in relation to the audit of South Derbyshire District Council for 2018/19.

We have substantially completed our audit of South Derbyshire District Council for the year ended 31 March 2019. 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 4 .

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

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

We welcome the opportunity to discuss the contents of this report or any other issues with you at the Audit-Sub Committee meeting on 28 November 2019.

Yours faithfully

Stephen Clark
Partner
For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary

02 Understanding Financial Statements

03 Areas of Audit Focus

04 Audit Report

05 Audit Differences

06 Value for Money

07 Other reporting issues

08 Assessment of Control Environment

09 Data Analytics

10 Independence

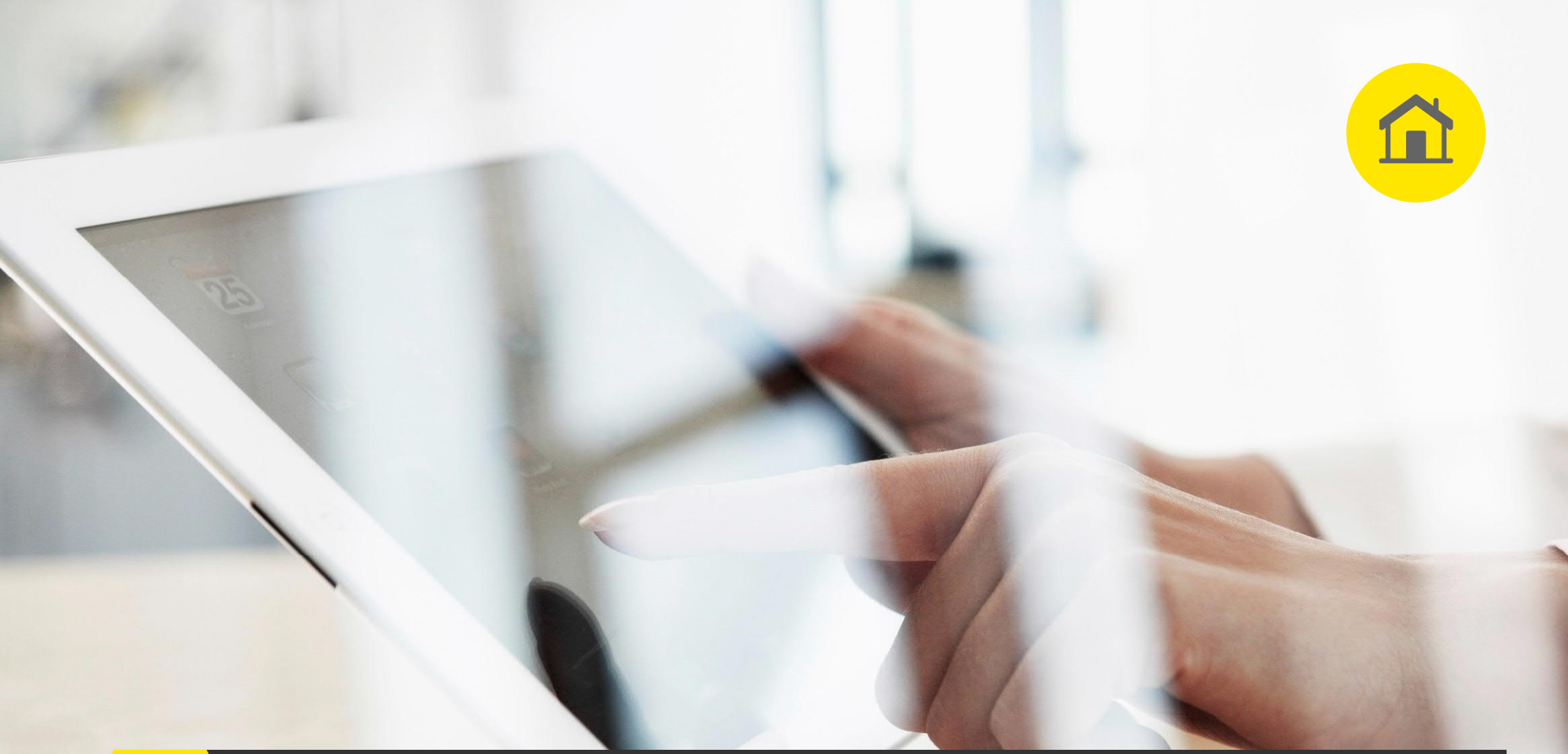
11 Appendices

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 April 2018)' issued by 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 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 / Terms and Conditions of Engagement. 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.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 20 March 2019 Audit-Sub Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality
  We planned our procedures using materiality of £944k. We have reassessed this using 2%of the actual year-end gross revenue expenditure. However, as the update resulted in a small change, the threshold for both materiality and reporting differences of £944k and £47k, remained unchanged for the financial statements audit.
- For clarity, we are reporting an extension to the scope of the work on one area of focus. We identified the Local Government Pension Scheme (LGPS) as an area of audit focus and listed the procedures we intended to perform. Due to the result of the McCloud judgement in relation to pensions, the Government Actuary Department (GAD) issuing guidance and the result of the Court of Appeal decision to deny the Government leave to appeal the decision, we extended the procedures to assess the adjustment made to the financial statements in respect of the judgement, the assumptions this adjustment was based on and management's process for obtaining and considering the adjustment.
- Similarly, the impact of Guaranteed Minimum Pensions (GMP) case on LGPS has been further considered since the drafting of the financial statements. The actuary for the Derbyshire Pension Fund concluded that the impact would not be material for the Pension fund. We have carried out further analysis on the range of the estimate.
- The effect of the amendment is reported under section 5 Audit Differences.

Status of the audit

We have substantially completed our audit of South Derbyshire District Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Councils financial statements in the form which appears at Section 5. However until work is complete, further amendments may arise:

- Conclude on the pensions disclosures (IAS 19) including the review of assumptions used in making the adjustment to pension liabilities for McCloud
- Conclude on property, plant and equipment valuations
- Conclude on other disclosures which include work on IFRS 9 and 15
- Conclude on the assessment of going concern
- Conclude on the value money conclusion
- Conclude on procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission.
- Completion of Subsequent event review procedures
- Review and conclude on the updated annual governance statement
- Review the final version of the financial statements
- Receipt of a signed letter of management representation

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

Executive Summary

Audit differences

We identified a number of round differences in the financial statements which have not been adjusted. We ask that the a rationale as to why they are not corrected be approved by the Audit-Sub Committee and included in the Letter of Representation.

We have also identified audit differences with which have been adjusted by management. Details of the audit differences can be found in Section 5.

Objections

We have not received any objections to the 2018/19 accounts from members of the public.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of South Derbyshire District 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 Audit-Sub Committee.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. During the performance of our substantive procedures we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risks:

What is the significant value for money risk?	What arrangements does the risk affect?	Our audit approach
Securing financial resilience	From the medium term financial plan, updated in February 2019, the Council has forecasted budget deficits from 2019/120 to 2023/24 with the general fund depleting from £9.1m to £2.1m but remaining above the £1m minimum level. Going forward the Council will need to continue to scrutinise its financial plans to achieve budget savings of £0.4m in 2019/20 rising to £1.5m in 2023/24.	We have performed the following procedures: ▪ Reviewed the MTFS including the adequacy of major assumptions ▪ Reviewed the Council's arrangements to develop a robust savings plan to address the future financial challenges.
Procurement and related contract issues in the Housing and Environment Services Directorate	In our 2016/17 Audit Results Report, we reported that the value for money conclusion was qualified on the basis the Housing and Environment Services Directorate had control weaknesses in its procurement and contract management arrangements which included having significant service contracts unsigned. As the Council started to implement recommendations part way through 2017/18, we have determined that the risk in this area remains relevant for the financial year.	We have performed the following procedures: ▪ Reviewed the outcomes of the work undertaken by Internal Audit to establish if the recommendations have been fully implemented by management ▪ Understanding, if there are any incomplete recommendations, the extent of and impact they have on system of internal control and managements plans to address them ▪ Reviewed the adequacy of managements governance arrangements to move to a shared procurement service.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the South Derbyshire District Council.

We have still to complete our submission of the Whole of Government Accounts to the National Audit Office . We do not anticipate any matters to highlight to you.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.

03 Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Due to the nature and value of some streams revenue and expenditure we do not consider the risk of fraud to apply to the following sources of Council revenue and expenditure such as Income from Central Government grants, Council Tax income, Business rate income, payroll and Housing benefit income and expenditure

In respect of expenditure we consider the risk is focussed on the incorrect capitalisation of revenue expenditure.

What did we do?

We undertook substantive procedures in response to this risk;

- Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; and
- Testing a sample of property, plant and equipment additions which have been included in the balance sheet to confirm that they have been correctly capitalised in accordance with accounting standard IAS 16 and the Council's PPE recognition accounting policy

What are our conclusions?

The additions transactions tested were concluded to have been capitalised in accordance with IAS 16 and the Council's recognition policy.

Significant Risk

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

What did we do?

We undertook a number of substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below;

- Identifying fraud risks during the planning stage of the audit;
- Inquiries of management 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;
- Determining an appropriate strategy to address those identified risks of fraud;
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Sample testing of journals from the accounting period that are identified from application of specified audit risk criteria;
- Consider the existence of significant unusual transactions during the year and performing review and testing as required;

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.
We have not identified any instances of inappropriate judgements being applied.

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

Significant Risk

Significant risk

Risk of cut-off error

What is the risk?

In the 2017/18 audit results report we confirmed that our audit testing identified a material error relating to the overstatement of both trade payables and cash and bank.

The absence of adequate cut-off arrangements at year may give rise to transactions being accounted for in the incorrect financial year.

What did we do?

We undertook substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below;

- Document our understanding of the Council's processes and controls in place to mitigate the risks.
- Sample testing of revenue and liability cut-off at the period end date.
- Conduct testing to identify unrecorded liabilities at the year-end.

What are our conclusions?

We have not identified any matters to bring to your attention.

Significant Risk

Other Areas of Audit Focus

Valuation of land and buildings

What is the risk?

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The fair value of other land and buildings represents a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the in-house and external valuer and their professional capabilities
- The reasonableness of the underlying assumptions used by the Authority's expert valuer

What did we do?

- Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding
- Evaluate the competence, capabilities and objectivity of management's specialist.
- Review the terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards. And assess if the instruction includes a specific instruction from the council to the valuer relating to an assessment on the unvalued population;
- Consider the work performed by the Council's external valuer, including the adequacy and scope of the work performed.
- Perform a sample test the asset data used by the valuer over the completeness and appropriateness of information provided to the valuer in performing their valuations (e.g. floor plans to support valuations based on a price attributed to area measurements);
- Review the classification of assets and ensure the correct valuation methodology has been applied.
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test the accounting entries have been correctly processed and recorded in the financial statements.

What are our conclusions?

We found the Councils internal valuers and the external valuer to be appropriately qualified with the relevant skills to perform the valuation analysis.

The valuation was undertaken in accordance with relevant financial reporting guidance, and the key assumptions used in the valuation were appropriate and within an acceptable range.
The valuation was undertaken in line with the Council's accounting policies.

We were satisfied that the classification of assets reported in the financial statement is materially correct, and the valuers conclusions appropriately recorded in the accounts.

Other Areas of Audit Focus

Pension Liability Valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by South Derbyshire Council.
The Authority's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £947.9 million.
The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund. 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.
In 2017/18, the Council's share of the pension scheme assets was understated by £260k primarily as a result of the timing of the actuary's work.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert.
- Ensuring the information supplied to the actuary in relation to Derbyshire County Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.

What did we do?

- Performed appropriate tests to obtain assurance over the information provided to the actuary.
- Wrote to the Pension Fund auditor to ascertain whether there are material concerns we need to be aware of for our audit.
- Ensured accounting entries and disclosures are consistent with the actuaries report.
- Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed the outcome from additional report from the Actuary in conjunction with a review and testing of the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

In the year a high court ruling (The McCloud Judgement) has created an constructive obligation as at the balance sheet date which would increase the liability of the Executive to the Pension Fund. Our preliminary assessment identified that there could be a material difference yielded by the outcome of this judgement and as such management requested updated information from the Pension Fund Actuary, which has been adjusted for in the financial statements.

Further, the impact of GMP was disclosed as immaterial by the fund actuaries. We have assessed the range of the estimate to conclude on the impact and found the range between £270k and £374k. These amounts are not material.

Our review of the Council's share of the pension scheme assets concluded that there was an understated by £143k. However, this is not material and the financial reflect the information from the actuary as at 31 March 2019.

Other Areas of Audit Focus

IFRS 9 - financial instruments

What is the risk?

This new accounting standard is applicable for Local Authority accounts from the 2018/19 financial year and will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on Local Authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

What did we do?

- Assessed the Authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
- Reviewed expected credit loss model impairment calculations for assets; and
- Checked additional disclosure requirements.

What are our conclusions?

Our work has not identified any matters to bring to your attention.

Other Areas of Audit Focus

IFRS 15 – Revenue contracts with customers

What is the risk?

This new accounting standard is applicable for Local Authority accounts from the 2018/19 financial year.

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.

The 2018/19 Cipfa Code of practice on Local Authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on Local Authority accounting is likely to be limited as large revenue streams like council tax, non-domestic rates and government grants will be outside the scope of IFRS 15. If the Authority has not assessed whether or not the new standard is relevant, there may be a risk of material misstatement if recognition of revenue is incorrect and new disclosure requirements are not included in the financial statements.

What did we do?

- Assessed the Authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include where relevant, any Local Authority Trading Companies consolidated into the Authority's Group Accounts
- Considered application to the Authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Checked additional disclosure requirements are correctly included.

What are our conclusions?

The Authority's assessment presented for audit did not contain details of the value of the streams of income to confirm if there were any streams of revenue that fell under the scope of IFRS 15. Using our data analytics tool, we evaluated each stream of income and concluded the Council does not have any material revenue streams that come under the scope of IFRS 15.

Areas of Audit Focus

Other matters

In 2018/19 Ministry for Housing, Local Government and Communities took the decision to defer the implementation of IFRS 16 (Accounting for leases) in 2019/20 to 2020/21. As a result we did not undertake a detailed review of the preparedness but recommended that the Authority continued to plan to implement the new standard commenced during 2019. We will discuss the Authority's progress to implement IFRS 16 as part of our audit planning for 2019/20.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below. These matters should be included where we have identified a potentially material impact arising in 2019/20;

- The revised IASB *Conceptual Framework for Financial Reporting (Conceptual Framework)*, the main elements being (19/20 Code Cpt 2.1 refers):
  – *new definitions of assets, liabilities, income and expenses*
  – *updates for the inclusion of the recognition process and criteria and new provisions on de-recognition*
  – *enhanced guidance on measurement bases*
- Guidance in the treatment of the Apprenticeship Levy (19/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (19/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (19/20 Code Cpt 9 refers)

04 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH DERBYSHIRE DISTRICT COUNCIL

Opinion

We have audited the financial statements of South Derbyshire District Council for the year ended 31 March 2019 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 related notes 1 to 36,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 10; and
- Collection Fund and the related notes 1 to 6

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of South Derbyshire District Council as at 31 March 2019 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 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director (Corporate Resources) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director (Corporate Resources) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts set out on pages 3 to 29, other than the financial statements and our auditor's report thereon. The Strategic Director (Corporate Resources) is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on the financial statements

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, [name of body] put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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.

Responsibility of the Strategic Director (Corporate Resources)

As explained more fully in the Statement of the Strategic Director (Corporate Resources) Responsibilities set out on page 29, the Strategic Director (Corporate Resources) 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Strategic Director (Corporate Resources) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the South Derbyshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the South Derbyshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Audit Report

Our opinion on the financial statements

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 South Derbyshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.

Certificate

We certify that we have completed the audit of the accounts of South Derbyshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Stephen Clark (Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham
November 2019

The maintenance and integrity of the South Derbyshire District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

05 Audit Differences

Audit Differences

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

Summary of adjusted differences

We highlight the following misstatements greater than £47k which have been corrected by management that were identified during the course of our audit.

The only adjustment exceeding the misstatement threshold related to the McCloud LGPS issue. £611k additional pensions deficit charged to services and £381k in Other Comprehensive Income due to the McCloud judgement in relation to pension liabilities. This judgement was confirmed after the preparation of the draft financial statements. An additional actuarial valuation was obtained to reach a more precise valuation on the impact than our initial estimate. Management have corrected these items.

Disclosure adjustments:
We discussed with management and requested a number of disclosure adjustments to the financial statements and draw your attention to the following key items:

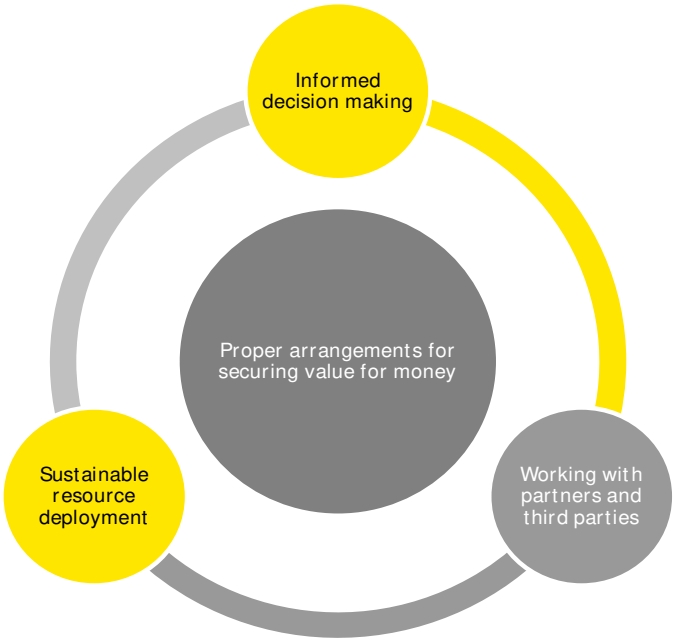
- Accounting policy – Depreciation
  The review of accounting policies concluded that the Property Plant and equipment policy did not state what the Council's accounting treatment for charging depreciation assets acquired and disposed.

- Rounding differences
  In 2017/18 we reported that there were a high level of rounding differences throughout the financial statements. Our casting of the draft 2018/19 financial statements has continued to rounding differences ranging between £1k and £3k. We recommend that this matter is addressed in 2019/20.

There were no uncorrected misstatements.

06 Value for Money Risks

Value for Money



Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning report and any other significant weaknesses or issues we want to bring to your attention.

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

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

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

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report. No additional risks have been identified since the audit plan was reported to the Audit-sub Committee on 20 March 2019.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Securing financial resilience	From the medium term financial plan, updated in February 2019, the Council has forecasted budget deficits from 2019/120 to 2023/24 with the general fund depleting from £9.1m to £2.1m but remaining above the £1m minimum level.	Based on results of our procedures we are satisfied that appropriate arrangements are in place to manage this significant risk. It was noted that from the latest update to the MTFS that the Council has forecasted deficit outturns, £0.59m in 2020/21 rising to £1.6m in 2023/24. During the same period the general fund reserve will decrease by £6.1m from £8.7m to £2.6m. The Council will need to continue scrutinising the financial plan and consider whether a savings plan will be required to address forecast budget deficits In order to minimise the risk of requiring unplanned reserves contributions.
Procurement and related contract issues in the Housing and Environment Services Directorate	In our 2016/17 Audit Results Report, we reported that the value for money conclusion was qualified on the basis the Housing and Environment Services Directorate had control weaknesses in its procurement and contract management arrangements which included having significant service contracts unsigned. As the Council started to implement recommendations part way through 2017/18, we have determined that the risk in this area remains relevant for the financial year.	Our work has concluded that the Council has now implemented all of the outstanding recommendations and continues embed the arrangements to strength governance arrangements.

07 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 2018/19 with the audited financial statements

We must also review the Annual Governance Statement (AGS) 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 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the AGS and can confirm it is consistent with other information from our audit of the financial statements. However, we draw your attention to confirm that management has updated the AGS. This is to reflect recommendations to update the Council's constitution and improve the transparency of the governance arrangements following an internal investigation in relation to the expression of interest made for a potential village garden.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters arising to the Audit sub-Committee.

Other reporting issues

Other powers and duties

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

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

Other matters

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

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

All matters on which we have information to report are included in this document.

08 Assessment of Control Environment

Assessment of Control Environment and other audit matters

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

Other audit matters

During the course of the audit we have identified a number of audit issues which we require to bring to your attention:

1. Rounding differences

   Our casting of the draft financial statements identified a high number rounding differences ranging between £1k and £3k. This is a high number of errors which need to be addressed in 2019/20.

2. Authorisation of manual journal entries

   Posting of manual journal entries in the general ledger are not authorised in the system. The Council's key control for authorisation is that all manual journals are recorded in a central journal log to be reviewed and updated by the Head of Finance to evidence the authorisation. Our review of the journal processes, using our data analytics tool to check the completeness of the log identified that there a small number of journals that had not been recorded and therefore unauthorised. It should be noted that none of the excluded journals was material.

09 Data Analytics

Data analytics —Journal entry testing and employee expenses

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

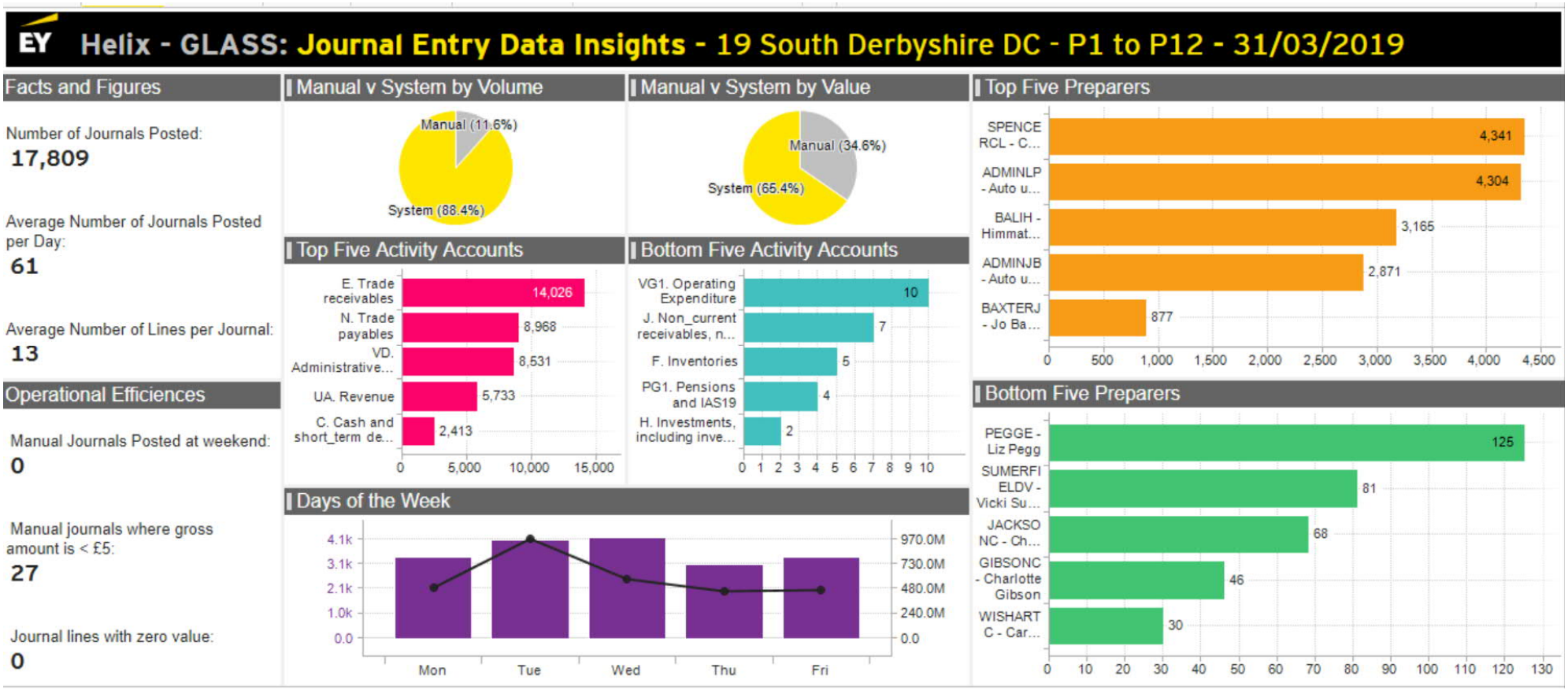
We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



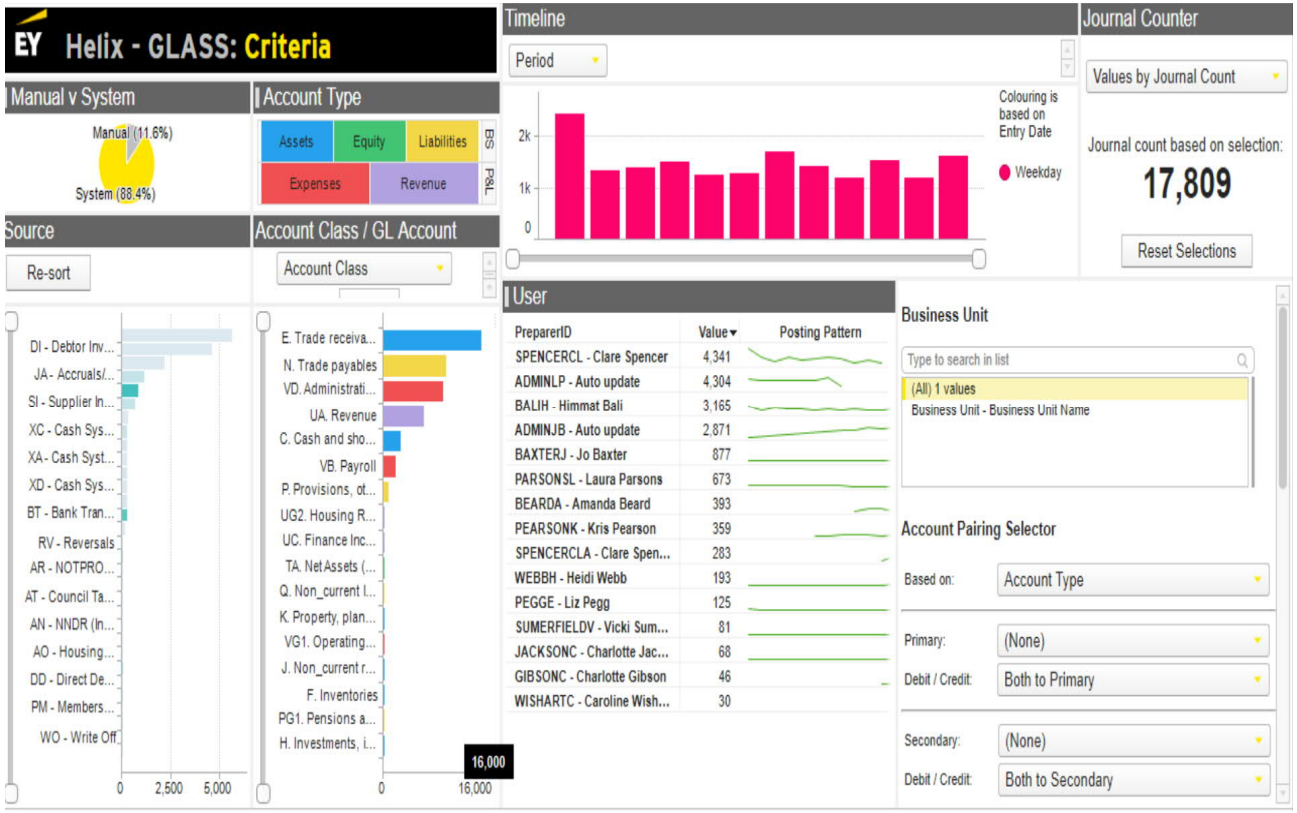
Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
Journal entry data criteria —31 March 2019

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

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

10 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 20 March 2019 .

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you the Audit-sub Committee consider the facts known to you and come to a view.

We confirm we have undertaken non-audit work outside the NAO Code requirements.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.
There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

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

We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

On the next page is an analysis of our fees for 2018/19..

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2019 and a comparison to prior years.

We confirm that we have undertaken non-audit work outside the NAO Code requirements in relation to . We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Audit work under PSAA requirements				
Financial statements	**37,941**	**37,941**	**37,941**	*** 50,945**
Certification of Housing benefits	**N/A**	**N/A**	**N/A**	**16,313**
Non-audit work				
1. pooling of housing capital receipts	TBC	TBC	N/A	1,890
2. Housing benefits	** TBC	N/A	N/A	N/A
Total Audit fee	**TBC**	**TBC**	**37,941**	**69,148**

TBC = To be confirmed.

* This includes additional work totalling £1,670 in relation to the value for money conclusion which has been agreed with management and approved by Public Sector Audit Appointments Limited.

** The final fee cannot be confirmed as the work is still in progress.

11 Appendices

Appendix A

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit-sub Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report 20 March 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 20 March 2019
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report 28 November 2019

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about South Derbyshire District Council's ability to continue for the 12 months from the date of our report.
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report 28 November 2019
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	
Fraud	• Enquiries of the Audit-sub Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit-sub Committee responsibility.	Audit results report 28 November 2019

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit results report 28 November 2019
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report 20 March 2019 Audit results report 28 November 2019
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit planning report 20 March 2019 Audit results report 28 November 2019

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report 28 November 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report 28 November 2019
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report 28 November 2019
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report 20 March 2019 Audit results report 28 November 2019

Management representation letter (DRAFT)

Management Rep Letter

Ernst & Young LLP
1 Colmore Square
Birmingham
B4 6HQ

Dear Stephen

This letter of representations is provided in connection with your audit of the financial statements of South Derbyshire District Council for the year ended 31 March 2019. 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's financial position of South Derbyshire District Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
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 2018/19. We have approved the financial statements
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. When there are unadjusted audit differences in the current year or we determine that the current year effects of correcting prior year differences are significant. 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.

Management representation letter (Draft)

Management Rep Letter

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

•involving financial statements;

•related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements

• related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties

• involving management, or employees who have significant roles in internal controls, or others; or

• in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1.We have provided you with:

• Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

• Additional information that you have requested from us for the purpose of the audit; and

• Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence

2.All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees or summaries of actions of recent meetings for which minutes have not yet been prepared held through the period 1 April 2019 to the most recent meetings.

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 Note 2

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

Management representation letter (draft)

Management Rep Letter

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. No , guarantees that we have been given to third parties.

E. Subsequent Events

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

F. Other information

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

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note 20 to the financial statements, we have no other line of credit arrangements

H. Reserves

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

I. Use of the Work of a Specialist

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

Management representation letter (draft)

[Insert specific management rep letter for the client]

Management Rep Letter

J. Estimates

National Non-Domestic Rates Appeals Provision Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the National Non-Domestic Rates Appeals provision [insert name of the accounting estimate] appropriately reflect all information we have regarding appeals lodged and likely success rates.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

K. Retirement benefits

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

Yours faithfully,

_____

Strategic Director (Corporate Services)

_____

Chairman of the Audit-Sub Committee)

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ED None

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