

**Waveney District  
Council**  
**Audit results report**  
Year ended 31 March 2018

July 2018

We recognise that the Authority agreed to be one of the first of our clients to be audited this year and would like to thank your staff for their help during the engagement

06 July 2018



Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Waveney District Council for 2017/18.

We have substantially completed our audit of Waveney District Council (the Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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

We recognise that the Authority agreed to be one of the first of our clients to be audited in this challenging year and would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 25 July 2018.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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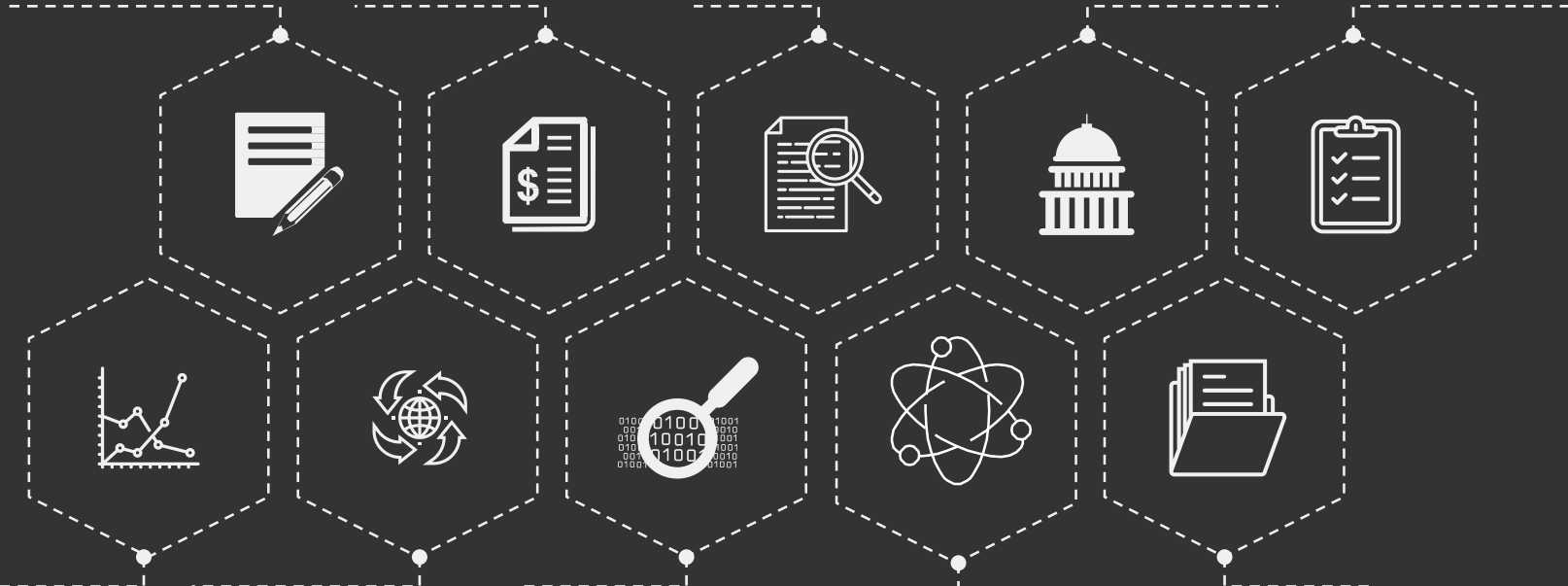
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit and Governance Committee and management of Waveney District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee, and management of Waveney District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of Waveney District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report presented at the 15 March 2018 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in materiality: We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.554m (Audit Planning Report – £1.57m). This results in updated performance materiality, at 75% of overall materiality, of £1.166m, and an updated threshold for reporting misstatements of £0.078m.
- ▶ We encountered unexpected challenges in the completion of the audit which we have set out on page 27. As a result of these challenges we are seeking to agree additional fees of £5,446 with management and PSAA.

## Status of the audit

We have substantially completed our audit of Waveney District Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3:

- ▶ Completion of our procedures in relation to: Annual Governance Statement; financial instruments; borrowings; cash; creditors; exit packages; PPE and Investment Property valuations; Grants Received in Advance; Housing Services expenditure; CIES; Capital Financing Requirement; Reserves; and VFM Conclusion.
- ▶ Completion of general audit procedures including: review of accounting estimates; group consolidation adjustments
- ▶ Final review of the above procedures
- ▶ Receipt and review of a revised set of statements incorporating audit adjustments
- ▶ Receipt of the signed management representation letter (see Appendix B)

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

## Executive Summary

### Audit differences

At the time of writing we have identified 1 unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £124,430. We agree with management's assessment that the impact is not material.

We identified 4 audit differences with an aggregated impact of £2.09 million on the Authority's net worth. Management have agreed to adjust these audit differences. Details can be found in Section 4 Audit Differences.

Until our work is complete, further amendments may arise. We will update the Committee should any further adjustments arise from our remaining work.

### Areas of audit focus

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

We did not identify any new key areas of focus since the Audit Planning Report.

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

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

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

### Control observations

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

As part of our value for money work we noted concerns raised by Internal Audit in respect of contract and asset management processes and procedures at the Authority. We encourage the Authority to address these concerns and deliver the agreed actions as soon as possible.



# Executive Summary

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified a significant risk in relation to governance arrangements following the decision to create East Suffolk Council.

Following reports by Internal Audit on the Council's arrangements to manage its contracts and its asset portfolio we recognised 2 further significant risks to our value for money conclusion.

Our work on these significant risks is substantially complete and we do not expect to have any matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However as the Council is below the £500m testing threshold set by the NAO for detailed work on your consolidation pack we do not expect to have any issues to report.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence.



02

## Areas of Audit Focus





# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue and expenditure recognition

#### What is the risk?

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

Having assessed the key income and expenditure streams of the Council, we judged that there was material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.

#### What judgements are we focused on?

We focused on:

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

#### What did we do?

- ▶ Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed.
- ▶ Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature.
- ▶ Amended our sample sizes when testing additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the capital/revenue split was reasonable.
- ▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.

#### What are our conclusions?

Our testing in this regard is complete. We have not identified any material misstatements from revenue and expenditure recognition to date.

Overall our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

We will verbally update the Committee should any matters arise from our remaining work that we wish to bring to your attention.





# Areas of Audit Focus

## 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 and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

#### What judgements are we focused on?

We focused on the following:

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

#### What did we do?

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

#### What are our conclusions?

Our testing in this regard is substantially complete.

We have not identified any

- ▶ material weaknesses in controls or evidence of material management override;
- ▶ instances of inappropriate judgements being applied; or
- ▶ other transactions during our audit which appeared unusual or outside the Authority's normal course of business

We will verbally update the Committee should any matters arise from our remaining work that we wish to bring to your attention.





## Areas of Audit Focus

### Other areas of audit focus

#### Property, Plant and Equipment Valuation

##### What is the risk?

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

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

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

##### What judgements are we focused on?

We focused on the following:

- ▶ The adequacy of the scope of the work performed by the valuer including their professional capabilities
- ▶ The reasonableness of the underlying assumptions used by the Authority's expert valuer

##### What did we do?

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

##### What are our conclusions?

Our work is incomplete in this regard. We encountered difficulty in completing this work due to the absence of officers that prepared the valuations and the lack of supporting evidence retained at the time to support valuation assumptions.

Our testing to date has identified 1 material misstatement from inappropriate judgements being applied to a property valuation estimate. The detail is set out in section 4.

We will verbally update the Committee should any matters arise from our remaining work that we wish to bring to your attention.



## Areas of Audit Focus

### Other areas of audit focus

#### Pension Liability Valuation

##### What is the risk?

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

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

##### What judgements are we focused on?

We focused on the following:

- ▶ The reasonableness of the underlying assumptions used by the Authority's expert - Hymans Robertson.
- ▶ Ensuring the information supplied to the actuary in relation to Waveney District 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?

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

##### What are our conclusions?

Our work is substantially complete in this.

Our testing identified one material misstatement arising from a difference between pension asset values estimated by the Actuary, and the actual pension asset values as at 31 March 2018.

The Authority has liaised with the pension fund and the Actuary to obtain revised figures that will enable an adjustment to be made to the pension scheme liability in the financial statements (see section 4 for more details).



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WAVENEY DISTRICT COUNCIL

##### Opinion

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

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement,
- ▶ The related notes 1 to 36 to the Authority and Group Statement of Accounts including the Expenditure and Funding Analysis on page 24,
- ▶ Housing Revenue Account and the related notes 1 to 9,
- ▶ Collection Fund Income and Expenditure Account and the related notes 1 to 3.

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

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Waveney District Council and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

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

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

##### Conclusions relating to going concern

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

- ▶ the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Chief Finance Officer 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 2017/18 set out on pages 3 to 21, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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

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

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Waveney District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the 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 Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 22, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer 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.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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 Waveney 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 Waveney District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Waveney 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.





# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Certificate

We certify that we have completed the audit of the accounts of Waveney 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 Waveney 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Suter (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Luton  
XX July 2018

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

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

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

# 04 Audit Differences



# Audit Differences

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

## Summary of adjusted differences

We highlight the following misstatement greater than £1.166m which has been corrected by management that was identified during the course of our audit so far.

### 1) Waterlane Leisure Centre Revaluation

Our testing of this asset concluded it was overstated by £4.084 million. When we challenged officers to explain the reason for the significant increase in the value of this asset it was found that the value per square metre had increased from £2,271 to £3,255 as the valuer had valued this asset as a swimming pool rather than a Leisure Centre. This was not picked up as part of the Council’s standard review procedures. We recommend that all asset values that move substantially from one year to the next are reviewed for accuracy as a matter of course to prevent similar errors recurring.

### 2) Capital Financing Requirement

The Code requires the Authority to disclose its Capital Financing Requirement (CFR) at the start and the end of the financial year. We noted that the CFR had been miscalculated in previous years as it incorrectly reduced the CFR by including finance lease liabilities in the calculation. As a result the CFR disclosure was materially understated by £7.6 million.

### 3) Pension adjustment

The Authority is an admitted body within the Suffolk Pension Fund. The Authority is reliant upon the Pension Fund’s Actuary to provide it with the relevant information in relation to the Authority’s share of assets and liabilities of the Pension Fund (through an IAS19 report) for inclusion within its financial statements.

The Actuary, within its IAS19 report (dated 11 April 2018) estimated the Pension Fund asset value as at the 31 March 2018. Our audit procedures include a focus on securing appropriate assurances from the Suffolk Pension Fund auditor. Amongst these procedures, they identified that the actual asset valuation at the 31 March 2018 was £44.3 million greater than the Actuary’s estimate. The Authority’s share of this increase is £1.994 million, which is material.

We asked the Authority to liaise with the Pension Fund Actuary, who has updated the IAS 19 report taking into account the actual year end asset valuations. This adjustment is a result of a timing difference between an estimate made by the Actuary, and information that has become available since the time of their initial report.

### 4) Cash flow statement

The CIPFA Code of Practice required the cash flow statement to disclose the amount of interest received and interest paid included within operating cash flow. This disclosure was missing from the current and prior year disclosures. Interest paid in 2017/18 was £2.9 million.

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

# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **Audit and Governance Committee** and provided within the Letter of Representation:

| Uncorrected misstatements<br>31 March 2018 (£000)  | Effect on the<br>current period: | Balance Sheet<br>(Decrease)/Increase |  |   |  |
|--|----------------------------------|--------------------------------------|--|---|--|
|  |                                  | Assets current<br>Debit/<br>(Credit) | Assets non<br>current Debit/<br>(Credit) | Liabilities<br>current Debit/<br>(Credit) | Liabilities non-<br>current Debit/<br>(Credit) |
| <b>Errors</b>  |                                  |                                      |  |   |  |
| <b>Judgemental differences:</b>  |                                  |                                      |  |   |  |
| <ul style="list-style-type: none"> <li><b>NDR Appeals Provision overstated</b></li> </ul>  | (124,430)                        |                                      |  |   | 124,430  |
| The Authority estimated that successful appeals against rateable values in the valuation lists will result in a 5% reduction of rateable values. This is based on guidance issued by Government in 2014/15. However the Authority's historic loss from successful appeals is 3.28%. The uncertainty arises from the difference in percentages applied. |                                  |                                      |  |   |  |
| <b>Balance sheet totals</b>  |                                  | 0                                    | 0  | 0   | 124,430  |
| <b>Income effect of uncorrected misstatements (before tax)</b>   | (124,430)                        |                                      |  |   |  |
| <b>Cumulative effect of uncorrected misstatements</b>  | (124,430)                        |                                      |  |   |  |

## Uncorrected misstatements in the statement of cash flows

We are yet to receive a revised statement of accounts with an amended cash flow statement but we expect all audit differences identified to be corrected. We will notify the committee if any cash flow misstatements above the reporting threshold are not corrected.

## Uncorrected disclosure misstatements

We are yet to receive a revised statement of accounts with amended disclosures but we expect all audit differences identified to be corrected. We will notify the committee if any disclosure misstatements above the reporting threshold are not duly corrected.

The above adjustments have the same impact on the group financial statements. There are no additional amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2018.



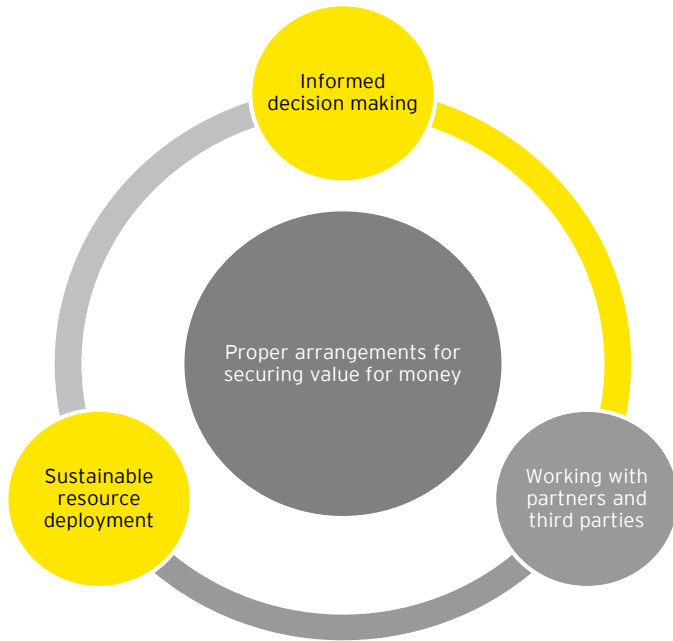
05

# Value for Money Risks





# Value for Money



## Background

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

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

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

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

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

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

## Overall conclusion

We identified 3 significant risks around these arrangements. Two of these significant risk in respect of asset management and contract management were raised subsequent to our Audit Planning Report presented in March 2018.

The tables below present our findings in response to these risks.

Our work is substantially complete in this regard and we expect to have 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 identified since we presented our Audit Planning Report.

### What is the significant value for money risk?

### What arrangements did the risk affect?

### What are our findings?

#### Creation of East Suffolk Council

Risk that key decisions have not been put to the right decision making bodies

Risk that the Authority has not put in place adequate measures to ensure the new Authority takes informed decisions going forward

Take informed decisions

We inquired of management the arrangements they have put in place to ensure that key decisions were put to the right decision making bodies. We also asked for details of the measures being put in place to ensure the new Authority will take informed decisions going forward.

We reviewed the key decisions made by Cabinet and Full Council and the supporting reports; the manager and staff briefing dated April 2018 which set out in detail the implementation plans including the workings of the Member Programme Board. This includes key areas such as Constitutional Alignment; TUPE of staff; setting budgets; setting a single Council Tax; IT implications.

We have no matters to report to the Committee.

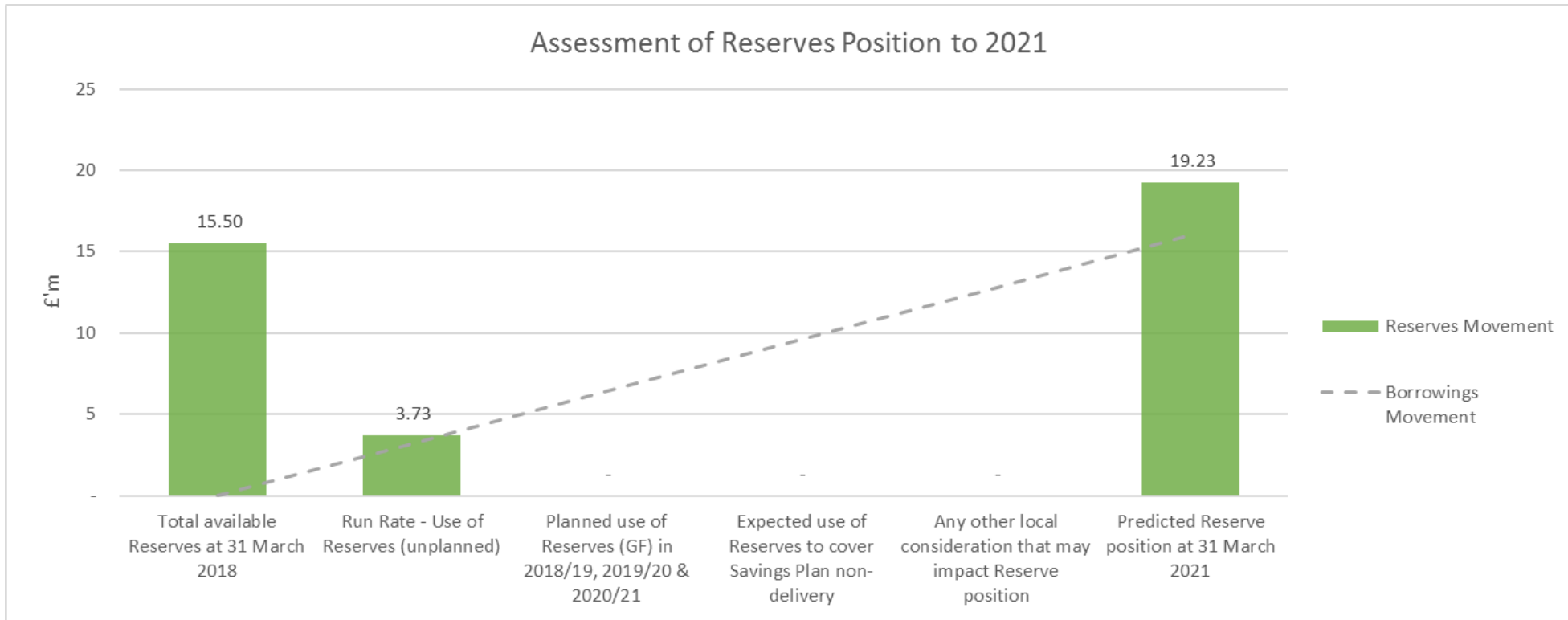
## Value for Money Risks

| What is the significant value for money risk?   | What arrangements did the risk affect?   | What are our findings?  |
|---|--|---|
| <p><b>Management of the Authority's asset base</b></p> <p>The 2016/17 Annual Governance Statement noted a need to improve asset management arrangements and internal audit work during 2017/18 reported limited progress in this area</p> | <p>Take informed decisions</p> <p>Deploy resources in a sustainable manner</p> | <p>We reviewed the findings reported by Internal Audit in their asset management report dated November 2017.</p> <p>We challenged management to demonstrate how they were satisfied that asset management arrangements in place throughout 2017/18 provided assurance that the Authority had adequate arrangements in place to secure value for money.</p> <p>We reviewed management's responses which covered the whole of the Authority's asset base and corroborated their explanations with our audit work and knowledge of the Authority.</p> <p>We acknowledge the control weaknesses raised by Internal Audit and recommend that the Authority put action plans into place as soon as practical.</p> <p>We have no additional findings to report to the Committee in relation to value for money.</p>  |
| <p><b>Contract management</b></p> <p>The 2016/17 Annual Governance Statement noted a need to improve asset management arrangements and internal audit work during 2017/18 reported limited progress in this area</p>                      | <p>Take informed decisions</p> <p>Deploy resources in a sustainable manner</p> | <p>We reviewed the findings reported by Internal Audit in their Contract Management report dated November 2017.</p> <p>We challenged management to demonstrate how they were satisfied that asset management arrangements in place throughout 2017/18 provided assurance that the Authority had adequate arrangements in place to secure value for money.</p> <p>We reviewed management's responses which covered all significant areas of revenue and capital expenditure. We corroborated management's response with our own work on significant contracts and our knowledge of how the Authority exercises overall control over these areas.</p> <p>Again we acknowledge the control weaknesses raised by Internal Audit and recommend that the Authority address the weaknesses identified by Internal Audit as soon as practical.</p> <p>We are satisfied that the Council has sufficient arrangements in place to secure value for money.</p> |





# Value for Money



## Our Assessment

In our assessment we considered:

- The Authority's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Authority's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Authority's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Authority's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Authority's planned use of borrowing over the same time frame to inform our assessment.

As a result of our assessment, we are satisfied that the Authority's General Fund reserve balance at the 31 March 2021 will remain above the Authority's approved minimum level.



# 06 Other reporting issues



## Other reporting issues

# Other reporting issues

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

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

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

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

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

### Whole of Government Accounts

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

We are yet to conclude our work in this area. However as the Council is below the £500m testing threshold set by the NAO for detailed procedures on your consolidation pack, we do not expect to have any issues to report.

### Other powers and duties

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

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

# Other reporting issues



### Other matters

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. We wish to report the following:

#### Challenges encountered during the audit

We planned to complete our audit work by 29 June 2018. This did not prove possible due to the following delays and unexpected matters arising:

- ▶ We added 2 significant risks to our value for money conclusion since our Audit Plan, as outlined in section 5;
- ▶ As set out in section 4 we identified 4 material errors in the valuation of a leisure centre; capital financing requirement; the pension liability; and cash flow statement disclosure.
- ▶ There were also a number of additional disclosure errors, compared with prior years, that we have not individually brought to the attention of members. For example in financial instruments disclosures; officers remuneration note; and short term creditors;
- ▶ We experienced delays in completing our PPE work due to the absence of the staff initially responsible for the valuations. PPE valuation assumptions were not readily supported by available evidence, and in some instances officers had to recreate evidence to support assumptions (e.g. on the gross internal areas used)
- ▶ We were required to undertake additional work on the amendments to the actuarial valuation of the pension liability and related disclosures;
- ▶ The NDR appeals provision working paper was complex and took longer than anticipated to review and conclude on;
- ▶ We have had various discussions with officers about an investment in the CCLA Property Fund in relation to the appropriate financial instrument classification to be applied as this determines whether future valuation adjustments would impact on the general fund or not;

As a result of the above matters arising the audit work has taken longer than anticipated. If the remaining work is resolved without any further delays we would seek to agree an additional fee of £5,446 with management and PSAA.

# Other reporting issues



### Other matters

#### Assessment of new Accounting Standards

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



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

However we noted the concerns raised by Internal Audit over contract and asset management processes and procedures at the Council and have commented in this report on the difficulties we have had when testing property valuations. We recommend that the Authority delivers on the agreed actions raised in those reports as soon as practical.



# 08 Data Analytics





# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

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

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

In 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

#### Journal Entry Analysis

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

#### Payroll Analysis

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



# Data Analytics

## Journal Entry Insights

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. Note to protect data confidentiality we have not shared the outputs in this report. We have shared the output with officers.

### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

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

### What did we do?

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

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

### What are our conclusions?

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

## Payroll Analyser Insights

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



09

Independence

## Confirmation



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

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee on 25 July 2018.

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

# Independence

## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

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

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

As at the date of this report, we have been retained to provide audit services for five years from 1 April 2018. In addition the Authority has agreed to our proposal to provide the Housing Benefit Subsidy Assurance service in 2018/19. We also expect to complete work on the 2017/18 Pooling of Housing Capital Receipts Return.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

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

|   | Final Fee<br>2017/18 | Planned Fee<br>2017/18 | Scale Fee<br>2017/18 | Final Fee<br>2016/17 |
|---|----------------------|------------------------|----------------------|----------------------|
|   | £                    | £                      | £                    | £                    |
| <b>Total Audit Fee - Code work (note 1)</b>                 | <b>59,220</b>        | <b>53,774</b>          | <b>53,774</b>        | <b>54,780</b>        |
| Non-audit work - Housing Benefit Grant Claim                | tbc                  | 11,015                 | 11,015               | 24,070               |
| Non-audit work - Pooling of Housing Capital Receipts Return | tbc                  | 3,500                  | n/a                  | 3,000                |
| <b>Total non-audit services</b>                             | <b>tbc</b>           | <b>14,515</b>          | <b>11,015</b>        | <b>27,070</b>        |

### Note 1

The final fee for 2017/18 includes a proposed variation of £5,446 (2016/17: £1,006) from the scale fee as a result of changes in the scope of the audit and other issues identified during the audit, as set out on page 27. This variation remains subject to agreement with management and the PSAA. It assumes the remaining audit work is completed without further complication or delay.

The final fee for the Housing Benefit Subsidy certification will be confirmed upon completion by the 30 November deadline. We will report the final fee in our annual grant certification report.




A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

# 10 Appendices

## Appendix A

# Required communications with the Audit and Governance Committee

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




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







# Appendix A

|                         |   | Our Reporting to you   |
|-------------------------|---|--|
| Required communications | What is reported?   | When and where   |
| Going concern           | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>   | No conditions or events were identified, either individually or together to raise any doubt about Waveney District Council's ability to continue for the 12 months from the date of our report |
| Misstatements           | <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>   | July 2018 - Audit results report   |
| Subsequent events       | <ul style="list-style-type: none"> <li>▶ Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>   | July 2018 - Audit results report   |
| Fraud                   | <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Governance Committee responsibility.</li> </ul> | <p>July 2018 - Audit results report</p> <p>Enquiries were made during the audit, and there are no issues to report to you.</p>   |

## Appendix A

|   |   | Our Reporting to you   |
|---|---|--|
| Required communications   |  What is reported?   |   When and where                   |
| Related parties   | <p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>  | <p>July 2018 - Audit results report</p> <p>No issues to report</p>   |
| Independence  | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> | <p>February 2018 - Audit planning report</p> <p>July 2018 - Audit results report</p>   |
| External confirmations  | <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>   | <p>We have received all requested confirmations</p>  |
| Consideration of laws and regulations                                     | <ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Audit and Governance 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 and Governance Committee may be aware of</li> </ul>                                     | <p>We have made inquiries of management, the Monitoring Officer and those charged with governance.</p> <p>We have not identified any material instances or non-compliance with laws and regulations.</p> |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>  | <p>We have not identified any significant deficiencies in internal controls.</p>   |

# Appendix A

|  |  |  Our Reporting to you   |
|--|--|--|
| Required communications  |  What is reported?  |   When and where |
| Group Audits   | <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul> | February 2018 - Audit planning report<br>July 2018 - Audit results report  |
| Written representations we are requesting from management and/or those charged with governance                           | <ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>   | July 2018 - Audit results report   |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>   | July 2018 - Audit results report<br><br>No issues to report.   |
| Auditors report  | <ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>  | July 2018 - Audit results report<br><br>No circumstances.  |
| Fee Reporting  | <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>   | February 2018 - Audit Planning Report<br>July 2018 - Audit results report  |
| Certification work   | <ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>  | Certification Report - expected December 2018 / January 2019   |

# Management representation letter

## Management Rep Letter

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

**Ernst & Young LLP**  
400 Capability Green  
Luton LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Waveney District Council ("the Group and Council") for the year ended 31<sup>st</sup> March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Waveney District Council as of 31<sup>st</sup> March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and the Council.

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

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

### A. Financial Statements and Financial Records

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

## Appendix B

# Management representation letter

### Management Rep Letter

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

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

1. We acknowledge that we are responsible to determine that the Group and 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 consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or 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 consolidated or 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 Group or 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 consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Full Council, Cabinet and Audit and Governance committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: **DATE TO BE ADVISED**.

# Management representation letter

## Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, 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 consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### D. Liabilities and Contingencies

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

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

### E. Subsequent Events

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

### F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

### G. Other information

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

# Management representation letter

## Management Rep Letter

### H. Use of the Work of a Specialist

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

### I. Accounting Estimates

#### Valuation of Pension Asset/Liabilities and Property, Plant and Equipment Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Group and the Council.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

### J. Retirement benefits

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

Yours faithfully,

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(Chief Finance Officer)

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(Chair of the Audit and Governance Committee)

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