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Report to those charged with governance (ISA 260) 2012/13

Wiltshire Council

August 2013

Contents

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction

This report summarises:

- **the key issues identified during our audit of Wiltshire Council's ('the Council's) financial statements for the year ended 31 March 2013; and**
- **our assessment of the Council's arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2012/13* presented to you on 18 June 2013, which summarised our planning and interim audit work.

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our *Interim Audit Report 2012/13* issued in June.

This report focuses on the final two stages: substantive procedures and completion. It also includes any additional findings in respect of our control evaluation that we have identified since we issued our *Interim Audit Report 2012/13.*

Our final accounts visit on site took place between 1 July and 19 July. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2012/13 VFM conclusion. This included:

- an initial VFM risk assessment; and
- our work to address the specific risk areas identified.

Structure of this report

This report is structured as follows:

- **Section 2** summarises the headline messages.
- **Section 3** sets out the key findings from our audit work in relation to the 2012/13 financial statements.
- **Section 4** outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in **Appendix 1**.

The recommendations which arose from this year's interim audit phase will be followed up at the interim report stage in 2014.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on 4 September 2013. This means that we consider that the accounts give a true and fair view of the financial performance and position of the Council and have been prepared in accordance with accounting requirements. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified one audit adjustment with a total value of £2.0 million. This amendment relates to the year-end Teacher's Pension superannuation balance being included within debtors despite being in a credit position. The correction of this adjustment had no impact upon either: ■ the deficit on provision of services for the year; or ■ the net worth of the Council as at 31 March 2013. We have included full details of the audit adjustment at **Appendix 2**. This was adjusted by the Council. There are no unadjusted audit differences.
Critical accounting matters	We have worked with Officers throughout the year to discuss specific risk areas. The Council addressed these issues appropriately.
Accounts production and audit process	The Council has, as in prior years, evidenced a strong financial reporting process and produced draft financial statements of high quality. Officers dealt with audit queries in a highly efficient manner which assisted in ensuring that the audit process was completed within the planned timescales. The Council has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.
Completion	At the date of this report our audit of the financial statements is complete with the exception of our work in relation to the Council's Whole of Government Accounts submission. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with the requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.
VFM conclusion	We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion on 4 September 2013.

Proposed opinion and audit differences

Our audit identified one audit adjustment. This relates to a credit balance included within debtors and does not affect the "cash" surplus position of the Council.

The impact of this adjustment is to:

- **increase short term debtors by £2 million; and**
- **increase short term creditors by £2 million.**

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on 4 September 2013.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you, of which there are none as the Council has processed all differences identified.

We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit identified a total of one significant audit difference, which we have set out in **Appendix 2**. This has now been adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of the audit difference on the Council's movements on the General Fund for the year and balance sheet as at 31 March 2013.

There is no net impact on the General Fund or the deficit on provision of services for the year as a result of the single audit adjustment identified.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2011/12 ('the Code')*. The Council has addressed these appropriately.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Movements on the General Fund 2012/13

£m	Pre-audit	Post-audit	Ref (App.2)
(Deficit) on the provision of services	(39,884)	(39,884)	
Adjustments between accounting basis & funding basis under Regulations	38,993	38,993	
Transfers from earmarked Reserves	(612)	(612)	
(Decrease) in General Fund	**(1,503)**	**(1,503)**	

Balance Sheet as at 31 March 2013

£m	Pre-Audit	Post-audit	Ref (App.2)
Property, plant and equipment	920,179	920,179	
Other long term assets	38,606	38,606	
Current assets	152,234	154,235	*1*
Current liabilities	(120,137)	(122,138)	*1*
Long term liabilities	(901,736)	(901,736)	
Net worth	**89,146**	**89,146**	
General Fund	(12,642)	(12,642)	
Other reserves	(76,504)	(76,504)	
Total reserves	**(89,146)**	**(89,146)**	

Critical accounting matters

We have worked with Officers throughout the year to discuss specific risk areas. The Council addressed the issues appropriately.

In our *Financial Statements Audit Plan 2012/13*, presented to you in March, we identified the key risks affecting the Council's 2012/13 financial statements.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
Savings Plans	■ The Council was forecasting in January 2013 that it deliver an overspend against its 2012/13 budget by approximately £1.2 million. However, the Council had plans in place to reduce the over spend by the end of the financial year in order to meet budget. The budget included a savings programme totalling £33 million and a drawdown of £1.7 million from the General Fund Reserve. ■ The Council estimated that another £28 million in savings would need to be achieved during 2013/14, and a further £23 million in 2014/15, to address the ongoing reductions to local authority funding. Against a backdrop of continued demand pressures in Adult Social Care and Children's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.	■ The final outturn for 2012/13 reported an under spend against budget of £0.087 million, with a £1.6 million draw down against General Fund Reserves. ■ As part of our work relating to our value for money conclusion we have reviewed the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This has confirmed that detailed savings plans have been developed for 2013/14 and 2014/15 and that performance is monitored adequately. ■ See page 9 for further commentary on the VFM conclusion work.
Rent System Changes	■ During 2012/13 the Council moved its rent system from Simdell to QL. The migration to the new Rents System required the management of a complex system implementation and the transfer of a significant amount of data into the new system. ■ Interfaces with the Council's SAP system also needed to be established and designed to operate effectively. ■ If this process was not undertaken and managed appropriately, the Council would be exposed to an increased risk that rental incomes and charges were incorrectly calculated and reported.	■ We reviewed the change management process which operated in relation to the system implementation and the adequacy of verification checks undertaken in relation to transferred data. Our work has concluded that the data migration project has been managed and performed in a satisfactory manner. The full findings of this work are to be reported separately. ■ We confirmed that effective interface reconciliations had been developed for year end purposes, and would be used on a periodic basis going forward.

Accounts production and audit process

The Council has continued to evidence a strong financial reporting process.

Officers dealt with audit queries in a highly efficient manner, enabling the audit process to be completed within the planned timescales.

The Council has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

The controls over the financial reporting system and housing rents are generally sound.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Council's accounting practices and financial reporting. We also assessed the Council's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Council has, as in prior years, evidenced a strong financial reporting process. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a set of draft accounts on 24 June 2013. The quality of the draft of the accounts was noted to be very high, with only a small number or presentation adjustments being required.
Quality of supporting working papers	Our *Accounts Audit Protocol 2012/13*, which we issued on 20 March 2013 and discussed with Finance, set out our working paper requirements for the audit. The quality of working papers provided was very good and met the each of the requirements specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved audit queries very quickly, with no unreasonable delays being experienced. We encountered no issues in relation to officer availability, with responses being provided through email and the KClient system when officers were away from the Trowbridge site.

Prior year recommendations

In our *Interim Audit Report 2012/13* we commented on the Council's progress in addressing the recommendations in our *Interim Audit Report 2011/12*. As a result, these recommendations are not to be revisited as part of this report.

The Council has now implemented all of the recommendations in our ISA 260 Report 2011/12 relating to the financial statements.

Controls over key financial systems

As part of our final audit visit, we have reviewed and assessed the controls around the financial reporting process and the housing rents system.

The controls over the majority of the key financial system are sound and the Council has continued to evidence a strong financial reporting process.

System	Assessment
Financial reporting	3
Housing rents	3

Key:
- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will close our audit and prepare our *Annual Audit Letter*.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Wiltshire Council for the year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Wiltshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in **Appendix 3** in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Director of Finance, a draft of which is reproduced in **Appendix 4**. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, etc.).

At the time of writing this report we have no matters to bring to your attention.

VFM conclusion

Our VFM conclusion considers how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following page includes further details on our specific risk-based work.

Specific VFM risks

We have now concluded our specific work in relation to the residual risks we identified following our initial risk assessment.

Our general audit work provides us with good assurance over the Council's general arrangements for securing economy, efficiency and effectiveness.

We identified the residual audit risks for our VFM conclusion, and set out our preliminary assessment of these with reference to the relevant work by the Council, the Audit Commission, other inspectorates and review agencies.

We concluded that we needed to carry out additional work for some of these risks and this work is now complete. The outcome of this work is set out below.

Key VFM risk	Preliminary assessment	Key findings of our additional work
Savings plan	We needed to consider in more detail the process used by the Council to put together the savings plan and monitor progress against it. In addition, we needed to assess the extent to which the Council makes use of benchmarking and unit cost analysis in developing such savings plans.	As noted on page 5, officers have identified detailed savings plans for 2012/13. These savings plans are spread throughout the various services provided by the Council rather than being wholly focused upon high cost areas. The Council has flexed savings targets in accordance with its strategic priorities rather than set a council wide percentage target. The aim of this is to ensure that priority areas are protected from cuts which may have undesirable impacts upon service quality. The Council continues to undertake benchmarking in order to inform the development of savings plans, whilst recognising that in many instances additional considerations must be accounted for in order to make appropriate decisions.

Specific VFM risks (continued)

We have now concluded our specific work in relation to the residual risks we identified following our initial risk assessment.

Key VFM risk	Preliminary assessment	Key findings of our additional work
Significant fall in value of Assets	During 2012/13 the Council completed the construction of its new office building, representing phase 1 of the renovation of County Hall. As the result of the valuation report produced by GVA Grimley, an downward revaluation of £14.7 million was required. We needed to consider whether the potential for such a reduction had been considered by the Council and whether the project could be deemed to provide value for money.	We confirmed that members were kept informed of the progress of the project and the resulting valuation. This was undertaken by way of project appraisals undertaken both during the project and upon completion. We have confirmed with management that the Council is not intending to achieve value for money through the sale of the asset. Instead the value of the project is represented by the impacts that will be experienced upon both the Council's working practices and the public's use of Council services. Such benefits are expected to include: ■ Increased use of Council facilities such as the library; ■ Creation of a central hub for provision of Council services; and ■ Changing the way Council officers work through increased open plan working. Management have also identified further savings on the renovation of County Hall which have been achieved as a result of ongoing maintenance costs being avoided and it is part of the Council's rationalisation of the estate programme.

Appendix 1: Current year recommendation

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendation.

We will formally follow up this recommendation next year.

Priority rating for recommendations		
❶ *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ *Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❸	**Completeness of Academy Asset Disposals** When a school achieves academy status, the Council should remove the assets from their books. We undertook testing designed to ensure that all assets relating to academy schools had been appropriately removed from the Council's records. This confirms that primary assets, such as land and buildings are no longer recorded. From our testing, we identified a number of smaller assets, such as temporary classrooms, which had transferred to academies but were still recognised on the Council's fixed asset register. We identified that such oversights had occurred during both 2011/12 and 2012/13 although the values were not material in either year. **Recommendation** The Council should ensure that a thorough review of the asset register is undertaken in order to ensure that all academy assets are identified and accounted for appropriately.	Community schools are disclosed on Wiltshire Council's balance sheet as many different smaller assts. Whilst the substantive part of the assets were accounted for when the school changed to Academy status, in some cases some minor assets were not derecognised. These comprise smaller assets related to the schools such as some mobile classrooms, playing field land etc. The associated value is also minor, comprising less than £152,000 when combined together. A full review of all the minor assets held on the Asset register relating to Academy schools will be performed during 2013/2014 to ensure all the minor assets that are held that do not belong to Wiltshire Council are removed from the balance sheet. Lead Officer: Steve MacDonald Due Date: January 2014.

Appendix 2: Audit differences

This appendix sets out the significant audit differences, all of which have been adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Council's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit difference identified by our audit of Wiltshire Council's financial statements for the year ended 31 March 2013, which has been adjusted.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1		**Dr** Short Term Debtors £2,001k	**Cr** Short Term Creditors (£2,001k)		As at 31 March 2013, the Council owed £2.0 million in relation to Teacher's Pension superannuation payments. This had been included within short term debtors as a result of the prior period position being in debit and the mapping of the account remaining unchanged.

Unadjusted audit differences

We are pleased to report that there are no unadjusted audit differences.

Presentational issues

We identified a small number of presentational issues during our audit and these have been amended by management.

Appendix 3: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Council.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 3: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Wiltshire Council for the financial year ending 31 March 2013, we confirm that there were no relationships between KPMG LLP and Wiltshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 4: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

KPMG LLP
100 Temple Street
Bristol
BS1 6AG

4 September 2013

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of Wiltshire Council ("the Authority") for the year ended 31 March 2013, for the purpose of expressing an opinion:

(i) as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended;

(ii) whether the Pension Fund financial statements of the give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

(iii) whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
   - give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended;
   - give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
   - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

   The financial statements have been prepared on a going concern basis.
2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

Appendix 4: Draft management representation letter (continued)

Information provided

4. The Authority has provided you with:
   - access to all information of which it is 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 the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

   The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
7. The Authority has disclosed to you all information in relation to:

   a) Fraud or suspected fraud that it is aware of and that affects the Authority [and the Group] and involves:
   - management;
   - employees who have significant roles in internal control; or
   - others where the fraud could have a material effect on the financial statements; and

   b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

Appendix 4: Draft management representation letter (continued)

The Authority further confirms that:

(a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

have been identified and properly accounted for; and

(b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 4 September 2013.

Yours faithfully

Chair of the Audit Committee

Director of Finance

Appendix 4: Draft management representation letter (continued)

Appendix A to the Board Representation Letter of [name of Authority]: Definitions

Financial Statements

A complete set of financial statements comprises:

- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Movement in Reserves Statement for the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

A housing authority must present:

- an HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund

For pension funds participating in the following pension schemes, pension fund accounts must be prepared by the local authority that administers the Pension Fund:

a) the Local Government Pension Scheme (in England and Wales)

b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts must be prepared:

a) the Firefighters' Pension Scheme for England

b) the Firefighters' Pension Scheme for Wales

c) the Police Pension Scheme in England and Wales.

The financial statements of a defined benefit pension fund and of police authorities and fire and rescue service authorities in England and Wales must contain:

a) A fund account disclosing changes in net assets available for benefits.

b) A net assets statement showing the assets available for benefits at the year end.

c) Notes to the accounts.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Appendix 4: Draft management representation letter (continued)

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users. [ISA (UK&I) 570.A2]

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation. [ISA (UK&I) 570.A5]

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure. [IFAC Glossary of Terms]

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorised for issue, and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance". [ISA (UK&I) 580.8]

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);

b) associates;

c) joint ventures in which the authority is a venture;

d) an entity that has an interest in the authority that gives it significant influence over the authority;

e) key management personnel, and close members of the family of key management personnel; and

f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13:

- providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority by virtue only of those dealings; and
- an entity with which the relationship is solely that of an agency.

Appendix 4: Draft management representation letter (continued)

Related party transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

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