

AUDIT COMMITTEE

24 September 2013

AUDIT RESULTS REPORT FOR THE YEAR ENDED 31 MARCH 2013

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

AUD061: Corporate Governance Report and Annual Governance Statement,  
25 June 2013

AUD059: External Audit Plan 2012/13, 25 June 2013

AUD062: Annual Financial Report 2012/13, 25 June 2013

EXECUTIVE SUMMARY:

Ernst & Young (EY), the external auditors, have now presented the Audit Results Report for the Year Ended 31 March 2013 (appended) which summarises the findings from the audit of the Financial Statements for 2012/13 and the results of the External Auditor's work on the Council's arrangements to secure value for money in use of resources. At the time of writing this report the audit work is substantially complete.

Subject to the clearance of outstanding matters, and the provision of a Letter of Representation, the External Auditor plans to issue an unqualified audit opinion on the financial statements and on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

Representatives of EY will attend the meeting to present their proposals and provide any points of clarification.

RECOMMENDATIONS:

That the Audit Committee:

1. Considers the matters presented in the Auditor's Report (Appendix 1) and takes the opportunity to raise any points of clarification or concerns with EY, who will be present at the meeting, and
2. Approves the Letter of Representation (Appendix 2).

OTHER CONSIDERATIONS:

1. SUSTAINABLE COMMUNITY STRATEGY and CORPORATE CHANGE PLANS (RELEVANCE TO):

- 1.1. The external audit of the Annual Financial Report is fundamental to the requirement for accountability for public finances. Achieving corporate priorities must go in hand with accounting for how the public's money has been spent.

2. RESOURCE IMPLICATIONS:

- 2.1. The external audit fees are shown at page 11 of Appendix 1 and are expected to be in line with the proposed fees; £74,214 Audit and £14,400 for the certification of claims and returns.

3. BACKGROUND DOCUMENTS:

None

APPENDICES

- Appendix 1 Annual Results Report for the year ended 31 March 2013
- Appendix 2 Letter of Management Representation (draft for approval)

# Winchester City Council

## Audit Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

*September 2013*



Building a better  
working world

■ Kate Handy, Director

■ [KHandy@uk.ey.com](mailto:KHandy@uk.ey.com)

■ Mike Bowers, Manager

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# Executive Summary

## *Key findings*

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### Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to 'those charged with governance' on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2012/13 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial Statements**

- ▶ As of 24 September 2013, we expect to issue an unqualified opinion. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

#### **Value for Money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources .

#### **Whole of Government Accounts**

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. (To be completed)

#### **Audit Certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the Audit Opinion.

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# Extent and purpose of our work

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## The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

Our audit was designed to:

- Express an opinion on the 2012/13 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- As a component auditor for the purposes of WGA, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than this specified party.

# Addressing audit risks

## *Significant Audit risks*

We did not identify any significant risks for the audit. The following general audit risks were identified during the planning phase of our audit, and reported in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Audit risks		
<p>1. Risk of misstatement due to fraud and error</p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p>	<p>Based on the requirements of auditing standards our approach focussed on:</p> <ul style="list-style-type: none"> <li>•Identifying fraud risks during the planning stages.</li> <li>•Inquiry of management about risks of fraud and the controls put in place to address those risks.</li> <li>•Understanding the oversight given by those charged with governance of management's processes over fraud.</li> <li>•Consideration of the effectiveness of management's controls designed to address the risk of fraud.</li> <li>•Determining an appropriate strategy to address those identified risks of fraud.</li> <li>•Performing mandatory procedures regardless of specifically identified fraud risks.</li> </ul> <p>We considered the results of the National Fraud Initiative and may make reference to it in our reporting to you.</p>	<p>We have gained the expected level of assurance over the risks of fraud, the oversight exercised by those charged with governance, the internal control framework and the operation of controls designed to prevent and detect fraud or error.</p> <p>We have completed our mandatory tests of detail on the financial statements and concluded that the risk of material misstatement remains low. We have not identified any material errors or omissions in the financial statements.</p> <p>The Council has taken action in respect the small number of reported frauds related to housing and council tax benefits in 2012/13. No other instances of fraud have been reported to us.</p> <p>We have completed the Audit Commission's National Fraud Initiative survey which required an assessment of how much work had been performed on the NFI data. The Council was rated as amber risk, reflecting that the Council's review of NFI matches was in progress at the time of the survey. Since then the Council has made good progress on its review of the data matches.</p>

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# Financial Statements audit

## *Issues and errors arising from the audit*

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### Progress of our audit

- Subject to receipt of your Letter of Representation and the completion of the audit work, we propose to issue an unqualified audit report on the financial statements.
- We will provide an update of progress at the Audit Committee meeting

### Uncorrected Errors

- The Council migrated its fixed asset register from its existing spreadsheet based register to a CIPFA off the shelf package at the end of 2012/13. In completing this work it has reviewed each asset record in detail and has identified a number of errors that it has decided to treat as a Prior Period Adjustment (PPA) in the draft 2012/13 financial statements. We believe that the sums involved are not sufficiently material to justify a prior period adjustment under IAS 8. Management have decided not to reverse the adjustments. We are satisfied that the values at 31 March 2013 are materially correct.

### Corrected Errors

- The audit identified a limited number of minor numeric and typographical errors which my team have highlighted to management for amendment. All of these have been adjusted during the course of our work. We do not consider any of these to be significant and therefore we have not provided further details of these amendments.

### Other Matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
  - ▶ Qualitative aspects of your accounting practices;
  - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
  - ▶ Other audit matters of governance interest

We have no matters we wish to report.

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# Findings and issues

## *Internal Control, Written Representations & Whole of Government Accounts*

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### Internal Control

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

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ it is consistent with other information that we are aware of from our audit of the financial statements.

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

### Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which we do not currently have sufficient audit evidence.

In addition to the standard representations, we request that you also confirm:

- that the Council is satisfied that the assumptions used by the actuary in relation to the Hampshire Pension Fund are, in your view, appropriate given the profile of the Council's employees;
- The reason why management has decided not to amend the treatment of the prior period adjustment. That the comparative figures have been correctly restated and that an appropriate disclosure note has been added for the amendments in the current year's financial statements.

### 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 my report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

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# Arrangements to secure economy, efficiency and effectiveness

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

## **Criteria 1 - Arrangements for securing financial resilience**

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*Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

- The Council closely managed its financial performance during 2012/13, under spending against the planned budget by £2.7m. This has enabled the Council to add £1.9m to the major investment reserve, and carry forward £0.8m to fund departmental spending bids.
- The medium term projections show a General Fund deficit of £1.17m in 2014/15 which increases cumulatively to £2.87m in 2015/16, and to more than £5.77m in 2018/19.
- The Council is therefore focussing on identifying savings, efficiencies and additional income to meet the 2014/15 deficit and on identifying potential initiatives to reduce the projected cumulative budget deficit from 2015/16 to 2018/19. Budget considerations are to be presented to members in October 2013.

- The Council has identified that its earmarked revenue and capital reserves will reduce in the medium term. It therefore intends to make annual contributions to reserves, so that it will have sufficient reserves to meet the future liabilities identified in its asset management plan.
- General fund balances continue to be maintained at £2m in line with the medium term financial strategy.

The Council should continue to focus on actions to reduce costs, make savings and efficiencies and to restore earmarked reserves.

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# Arrangements to secure economy, efficiency and effectiveness

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

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

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*Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*

- ▶ The Council monitors the performance of its services and continues to seek alternative ways of service delivery that meet users needs in an efficient and effective manner. This is being achieved through, for example, joint working with other authorities and private sector partners on the environmental services contract.
- ▶ Internal challenge has continued and savings of £0.15m pa have been identified from the next stage of organisational development and £0.2m pa from the '1Team' initiative.
- ▶ Consultation has been held with users, partners and stakeholders to help shape the delivery of services that are relevant and effective.

- ▶ Members have been briefed on the key changes to local government finance and legislation, including the retention of business rates, the localisation of council tax support and the cap on council tax increases. The Council has also considered the implications for its governance arrangements of the abolition of the Standards Board and the general power of competency.

The Council is aware of the service and financial challenges that it faces in the medium term. It should continue to focus on how these can be addressed in the current economic climate, while maintaining services that meet users needs.

We have no issues to report in relation to this criteria.

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# Independence & Audit Fees

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## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 3 June 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit director and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We are aware that EY Partners/Employees have been appointed as the administrator(s) for Municipal Mutual Insurance Ltd and the Heritable Bank PLC. We confirm that no member of our audit engagement team has been involved in the administration of either Municipal Mutual Insurance Ltd or the Heritable Bank PLC.
- ▶ We confirm that we are not aware of any other relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our audit plan on 3 June 2013.

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# Independence & Audit Fees

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## Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	£s
Total Audit Fee - Code work	74,214	74,214	-
Certification of claims and returns	14,400	14,400	-
Non-Audit work	n/a	n/a	-

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

## Ernst & Young LLP

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

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

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

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

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

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## Letter of representation: Audit of financial statements

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[To be prepared on WCC letterhead]

[Date]

**Ernst & Young**  
**Wessex House,**  
**19 Threefield Lane,**  
**Southampton SO14 3QB**

This representation letter is provided in connection with your audit of the financial statements of Winchester City Council (“the Authority”) for the year ended 31 March 2013. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Winchester City Council as of 31 March 2013 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

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

### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of the expenditure and income of the Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and are free of material misstatements, including omissions. We have approved the financial statements. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
3. We believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 that are free from material misstatement, whether due to fraud or error.

4. We believe that the effects of any unadjusted audit differences, summarised in paragraph L below, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because we believe the existing treatment to be more informative to the reader of the accounts. We confirm that the appropriate disclosure note has been included in the Accounts (Note 39 refers).

## **B. Fraud**

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

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

1. We have disclosed to you all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and we have disclosed all communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

## **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement,
  - Additional information that you have requested from us for the purpose of the audit, and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees held through the year to the most recent Council meeting on 17 July 2013, and Cabinet meeting on 11 September 2013.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

#### **F. Subsequent Events**

1. As described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

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

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates are appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

## **H Retirement benefits**

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

## **I Ownership of Assets**

1. Except for assets capitalised under finance leases and some IT assets shared with Test Valley Borough Council, the Authority has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheet.
2. There are no agreements or options to buy back assets previously sold that need to be recorded and disclosed in the financial statements.
3. We have no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

## **J Reserves**

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

## **K Use of the Work of Experts**

1. We agree with the findings of the experts engaged to evaluate the fair value of property plant and equipment and the IAS19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts 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 experts.

## **L Comparative information**

1. During 2012/13 the non-current assets have been migrated from the existing fixed asset

register to an off the shelf computer package. This process identified errors in the existing fixed asset register which have been amended as a prior year adjustment. These adjustments have reduced the total net assets and total reserves (usable and unusable) by the following amounts at 1 April 2011 and 31 March 2012:

- 1 April 2011 by £633,000
  - 31 March 2012 by £477,000
2. The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's financial statements.

*Yours Faithfully,*

Chief Finance Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 24 September 2013.

Chairman of the Audit Committee.