ANNUAL AUDIT LETTER 2017/18

1 PURPOSE OF REPORT

1.1 To draw the Audit Committee's attention to the 2017/18 Annual Audit Letter.

2 FINAL REPORT TO THE AUDIT COMMITTEE

2.1 The Council's external auditors, Ernst & Young, are required to issue an Annual Audit Letter to Rochford District Council following completion of their audit procedures for the year ended 31 March 2018.

2.2 The purpose of the Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from external audit work which should be brought to the attention of the Council. The 2017/18 Annual Audit Letter is attached as Appendix 1.

2.3 The detailed findings from the 2017/18 Audit Results Report have already been reported to the Audit Committee on 24 July 2018.

2.4 Below are the summary results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
▸ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▸ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▸ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▸ Public interest report	We had no matters to report in the public interest.
▸ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▸ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

3 RESOURCE IMPLICATIONS

3.1 A scale fee variation increase of £16,497 has been agreed to reflect the extra work associated with additional testing of some areas, bringing the total fee for 2017/18 code work to £64,154, as detailed in the table below. The Housing Benefit certification of claims and returns audit is not yet completed; the outcome of this audit will be reported to the next Audit Committee meeting, along with the proposed fee.

Description	Final Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 20116/17 £
Total Audit Fee - Code work	64,154 See Note 1	47,657	55,526
Total Audit Fee - Certification of claims and returns	See Note 2	8,184	11,783
Total Audit Fee	To Be Confirmed	55,841	67,309

Note 1:

Our 2017/18 Audit Plan indicated the areas where a scale fee variation increase would arise from changes in the scope of the audit these being:

- The reduction in Performance Materiality from 75% of gross expenditure to 50% results from the extent and nature of errors reported in the 2016/17 financial statements.
- The preparation of Group Accounts for the first time;
- The change in estimation process for calculating the Business Rates Appeals Provision, which will now be calculated within the Finance Team rather than through a management expert; and
- The governance risks relevant to the creation of Green Gateway Trading Development Ltd which impacted on our value for money conclusion risk assessment

In addition, in our Audit Results Report, we highlighted the extra work undertaken during the 2017/18 audit and which has resulted in an extra fee.

In total this has resulted in a proposed additional fee of £16,497. We will discuss the additional fee in more detail with management, which will then subject to approval by the Public Sector Audit Appointments Ltd.

Note 2:

We have not yet completed our certification of the housing benefit subsidy claim and therefore cannot verify the final fee for this work. We will report this in our report on claims certification later in the year

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

4 LEGAL IMPLICATIONS

4.1 Regulation 20 of the Accounts and Audit Regulations 2015 sets out that:-

1. A Committee must meet to consider the Annual Audit Letter as soon as reasonably practicable.
2. Following consideration of the letter in accordance with paragraph (1) the authority must:-

   (a) publish (which must include publication on the authority's website) the audit letter; and

   (b) make copies available for purchase by any person on payment of such sum as the authority may reasonably require.

5 EQUALITY AND DIVERSITY IMPLICATIONS

5.1 An Equality Impact Assessment has not been completed as no decision is being made.

6 RECOMMENDATION

6.1 It is proposed that the Committee **RESOLVES**

That the Annual Audit Letter for the year ended 31 March 2018 be noted.

Naomi Lucas

Section 151 Officer

Background Papers:-

None.

For further information please contact Naomi Lucas (Section 151 Officer) on:-

Phone: 01702 318102
Email: naomi.lucas@rochford.gov.uk

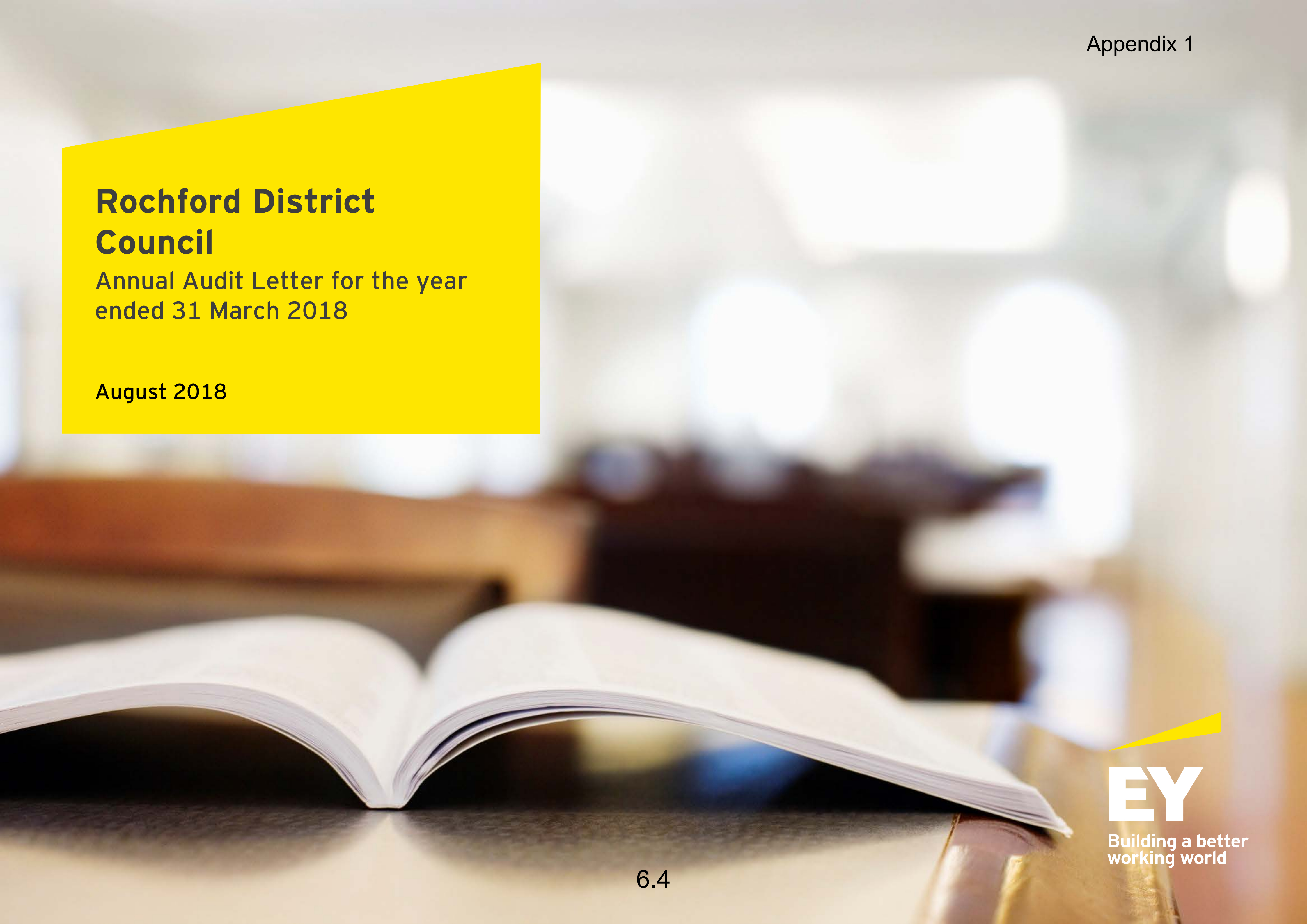
If you would like this report in large print, Braille or another language please contact 01702 318111.

Appendix 1

Rochford District Council

Annual Audit Letter for the year ended 31 March 2018

August 2018



Building a better working world

Contents

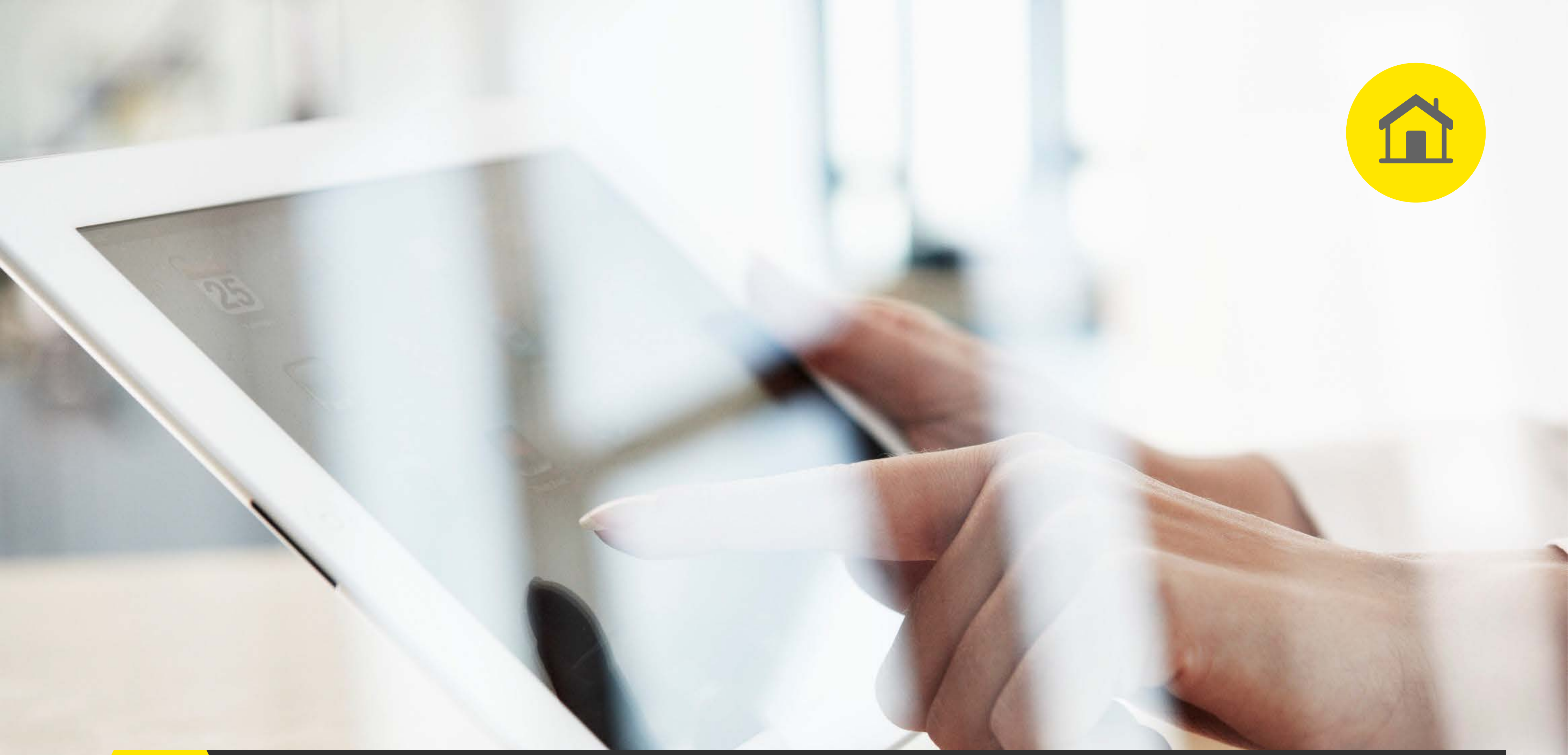
Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter 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.



01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Rochford District Council following completion of our audit procedures for the year ended 31 March 2018.
Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 16 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 July 2018.

In December 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 24 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 16 January 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2017/18 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 July 2018.

Our detailed findings were reported to the 24 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The key risk is that 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.	To address the risk, we: • Enquired of management about risks of fraud and the controls in place to address those risks; • Considered the oversight given by those charged with governance of management's processes over fraud by direct enquiry; • Considered the effectiveness of management's controls designed to address the risk of fraud; • 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. The most significant estimates in the financial statements relate to the net pension liability and property valuations; • Evaluated the business rationale for any significant unusual transactions; • Tested capital expenditure to verify that revenue costs had not been inappropriately capitalised; and • Performed testing of revenue and expenditure near year end, to ensure it was accounted for in the correct period. We did not identify material weaknesses in controls or evidence of material management override. Our testing of journals did not identify adjustments outside of the normal course of business. All journals tested have appropriate rationale. We have not identified any instances of inappropriate judgements for estimates. We did not identify any significant unusual items. Our audit identified a capitalised sum of £102,000 in relation to the migration of the Council's ICT systems to Microsoft. Management could not evidence that these costs were directly attributable to bringing the new IT server into existence and therefore reclassified this as revenue. We extended our testing but found no further inappropriate classification of expenditure. We identified no instances of error that were indicative of fraud from testing of revenue and expenditure near year end.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Property, plant and equipment Property, plant and equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying estimates. Therefore it is appropriate to recognise property valuation as inherent risk.	To address the risk, we: • 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. 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; and • Tested accounting entries had been correctly processed in the financial statements. We are satisfied with the scope of the work performed by the value including their professional capabilities and concluded that the underlying valuation assumptions are reasonable. We confirmed that the Council has valued all assets within a five year rolling programme. We did not find any significant changes to assets requiring a revaluation. Our indexation review of assets not revalued in year did not identify material variances. We did not find any significant changes to economic lives as a result of the most recent valuation. The Council has amended the property, plant and equipment note in the Balance Sheet to include previously omitted community assets of £1.1 million and to reduce community assets of £5.9 million which were inappropriately valued at existing use rather than historic cost.
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a highly 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 As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.	To address the risk, we: • Liaised with the auditors of the Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to Rochford District Council; • Assessed the conclusions drawn on the work of the actuary, Barnett Waddingham, by the Consulting Actuary, PWC, who are commissioned by the National Audit Office, as well as the conclusions of our own pensions specialists in relation to this work; and • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. We have reviewed the assessment of the pension fund actuary by PWC and EY pensions and have undertaken the required work to consider the assumptions made by the actuary. The EY pension fund auditor identified a movement on the total fund assets between the estimated year end balance used by the actuary in their initial IAS19 report and the actual fund assets. The impact of this movement was an overstatement of the Council's pension assets of £1.055 million, resulting in an understatement of the liability by the same amount. This amount is material and as a result the Council requested a revised IAS19 report from the actuary and has amended the accounts to reflect the updated figures. We have not identified any issues with the accounting entries and disclosures made within the financial statements.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Business rates appeal valuation The business rates appeals provision includes, not only current year claims up to 31 March 2018, but claims that relate to earlier periods and is subject to estimation. As appeals are made to the Valuation Office, the Council may not be aware of the level of claims lodged. The Council may also find it difficult to obtain sufficient information to establish a reliable estimate. The Council have changed their approach to calculating the provision in 2017/18 (previously relying on an expert) and we have therefore included the provision as a new area of risk	Our approach focused on: • Reviewing the Council's methodology underpinning the provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with accounting standards; • Ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed; and • Reviewing the completeness of the provision. The total value of the appeal provision is £0.666 million with Rochford's share being £0.266 million. The movement in year was an increase of £0.109 million. We have reviewed the Council's methodology underpinning the calculation of the provision. We are satisfied that there was sufficient evidence that the appeals were the result of a past event, with a probable outflow of resources and are a reliable estimate. The appeals we tested had sufficient supporting evidence and the basis for the appeal was appropriately calculated. We tested the completeness of the provision by obtaining a listing of appeals from Valuation Office website and checked this to the appeals listing used by the Council. Our testing found no omissions.
Accounting for Subsidiary – Green Gateway Trading Company In 2016/17, the Council established a wholly owned limited liability company – Green Gateway Trading Company to enable trading to take place for profit in respect of services for grounds maintenance. 2017/18 was the first year that the Council consolidated the trading company and present Group Accounts within the Council's financial statements. The preparation of Group Accounts requires a new structure for the accounts with restatement of primary statements as well as new disclosure notes and the removal of intercompany balances.	To address the risk, we: • Tested directly Green Gateway Trading Company transactions; • Reviewed the consolidation workings for accuracy; • Agreed the accounting treatment of intercompany balances; and • Reviewed the disclosures made in relation to Green Gateway Trading Company. We did not identify any errors from our direct testing of the transactions between the group. We agreed with the approach to the consolidation and found no errors. We agreed the accounting treatment and the appropriate elimination of intercompany balances. The Council has made appropriate disclosures in relation to its group accounts.

Other Key Findings	Conclusion
Other – Cash Flow Omission from the cash Flow Statement	The Council has adjusted for omitting applied and unapplied Disabled Facilities Grants to the value of £0.450 million as set out in Note 25 from the Cash Flow Statement.
Other - Narrative Report We reviewed the information presented in the Narrative Report for consistency with our knowledge of the Council.	The Council amended the Narrative Statement to include comparative information from 2016/17 for performance indicators. However, the Council has not included commentary on significant changes between years and we have recommended that the Council plan for this in 2018/19 to comply with the Code of Practice.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Other – Disclosure Adjustments We highlighted several misstatements in the disclosure notes identified during the audit,	Management amended for the following misstatements: **Expenditure and Funding Analysis (EFA):** There were several internal inconsistencies within the EFA, the Comprehensive Income and Expenditure Account (CIES) and the note to the EFA. The Council has amended: • The CIES for both Enterprise and Planning to reflect the sums in the EFA; • The adjustments column in the EFA to agree with the Note to the EFA; and • Note 7(a) to the EFA to correct an error in the calculation of the Other Income and Expenditure figure, which should be £0.704 million and not £0.887 million. **Provisions (note 18b):** The note had not been updated from the 2016/17 financial statements. The Council has updated both the 2016/17 and 2017/18 figures to show the correct position.
Other – Minimum Revenue Provision and Capital Financing Requirement In our 2015/16 Audit Results Report we reported that: In previous years, the Council has not set aside sums to fund a Minimum Revenue Provision (MRP). An MRP is required in order to set aside a provision for the repayment of debt to finance the capital programme. The calculation is based on the opening balancing position on the Capital Financing Requirement (CFR). Based on the current figure the sum is not material. However, as our audit indicated that there may be errors in the calculation of the CFR, we have asked management during 2016/17, to: • Review the calculations for the CFR back to 2004 if necessary; • Review whether funding has been correctly applied in those years; • Establish what CFR should be; and • If required set out an MRP policy and start setting aside a provision from 2016/17.	The Council has responded to this recommendation during 2017/18 and has undertaken a review of the records its holds related to the CRF. Unfortunately the Council has not been able to access records going back as far as 2004, but based on information that is available, has calculated a CFR opening balance of £0.773 million at 1 April 2017. The Council has amended the accounts to increase the CFR from £0.687 million to £0.773 million. The Council has also confirmed the following in relation to this issue: • They believe the underlying CFR relates to an historic amount outstanding when the Council transferred their Housing Stock over to the Rochford Housing Association in 2007; • The Council is not able to access detailed records for this period and is therefore unable to determine whether MRP should be charged in relation to this; and • Rochford does not have any new external borrowing and is therefore is not currently changing a minimum revenue provision. On the basis of the above we have concluded that: • Any potentially omitted minimum revenue provision would be below our reporting threshold for any individual year; and • The potential cumulative under provision would not be material. We have therefore accepted the Council's position not to charge MRP.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality for the Group and Council accounts to be £0.729 million (2016/17: £0.674 million), which is 2% of gross revenue expenditure reported in the accounts of £34 million increased by £1.4 million parish precepts and £0.9 million for net interest on the pension liability. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.036 million (2016/17: £0.034 million.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures, where we tested all disclosures to payroll information; and
- Related party transactions. where we performed a companies houses search for any undisclosed related parties.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no unadjusted errors.

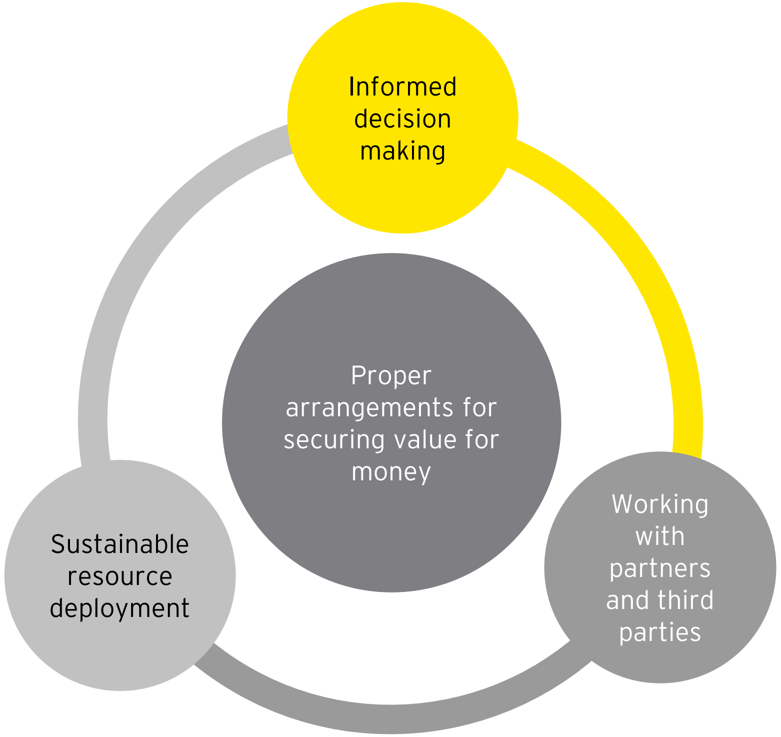
04 Value for Money

Value for Money

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.

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.



We identified two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

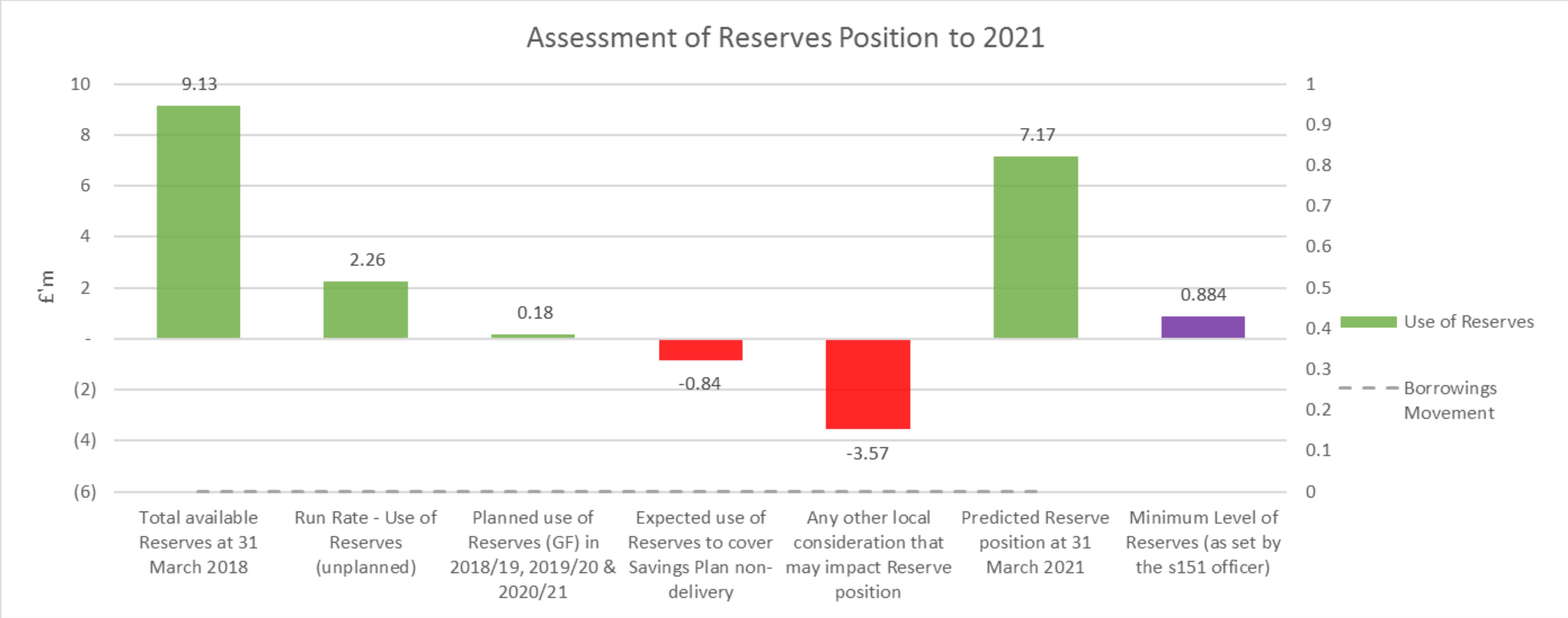
We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 27 July 2018.

Significant Risk	Conclusion
Achievement of Savings Needed over the Medium Term The Council faces significant financial challenges over the next three to four years, with a forecasted underlying budget gap of £2.1 million by 2021/22. Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.	We have undertaken the procedures as set out in our Audit Plan, through our review of the Council's Medium Term Financial Plan (MTFP), performance reports and savings plans. We set out our observations below. **Savings and income generation plans** Rochford has a record of achieving savings plans, reporting £0.628 million delivered against the planned £0.689 million target for 2017/18. The ability of the Council to close the budget gap in the MTFP is dependent on the delivery of: • £0.851 million savings in 2018/19; and • £1.2 million cumulative savings plans to 31 March 2023. The Council has identified the savings needed to bridge the gap for 2018/19, but has yet to risk assess these for their delivery. There are as yet no business cases for the longer range savings for 2020/21 and 2021/22. The achievement of these plans would still leave a gap of £0.783 million at 31 March 2023 for which the Council has yet no plans. At present the Council has sufficient levels of reserves and is forecasting that it will maintain its general fund balance at £0.9 million with earmarked reserves set at £8 million at 31 March 2018. This is shown in the subsequent chart. However, to strengthen arrangements further, we recommend that the Council: • Risk assesses savings for 2018/19, and monitor and report delivery against each plan on a monthly basis, given that the savings for 2018/19 represent 44% of the plans to 2020/23; • Develops risk assessed business plans to determine whether the concepts for savings in 2020/21 (£650,000) and 2021/22 (£370,000) are viable; and • Develops plans to mitigate against slippage on savings schemes, given that there is still a gap of £0.780 million at 31 March 2022, assuming all current savings plans deliver as planned. **Assumptions used in medium term planning;** The process for setting the Council's budget is sound and the MTFP identifies the key assumptions expected to underpin the 2018/19 budget. However, it only provides an indication of the budget gap over five years and does not explain the options facing Members in deciding council tax levels. We recommend for transparency to the public that the MTFP: • Profiles the base budget, growth items, planned use of reserves and savings plans over three to five years show how the budget gap is derived; and • Includes a sensitivity analysis of the impact on the MTFP of different options for council tax. **Performance reporting** The Council's reported performance against its performance targets has deteriorated in 2017/18 10 (41%) of indicators below target and a further 5 (21%) with no target. We recommend that the Council's improves its reporting of its indicators to: • Explain in Performance Reports and the Narrative Report the reasons targets have not been achieved; and • Seek to set targets for all performance measures

Value for Money



Our Assessment

In our assessment we considered:

- The Council's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Council's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Council'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 Council'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
- reliance upon Council Tax sharing and Recycling Scheme income which has not been confirmed post 2018/19, upon which the MTFS is reliant.

The Council has no planned use of borrowing over the same time frame.

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

Value for Money (cont'd)

Significant Risk	Conclusion
Local Authority Trading Company – Green Gateway Trading Development Limited In July 2017, the Council established Green Gateway Trading Development Ltd as part of the Local Authority Trading Company with the intention that it should be used to derive income through property development. The aim is to enhance the economic wellbeing of the District and provide an income stream to help the Council to be less dependent upon Government funding. As a new arrangement there may be risks relating to the governance arrangements for the company. Our approach has focused on the governance structure in place to establish and manage the new company .]	We completed our assessment as outlined in our Audit Plan. Our review of the arrangements found that in making the initial decision to establish the Company the Council had: • Established the Company with regard to the Council's strategic aim of become financially self-sufficient; • Specified the appropriate powers by which to establish the Company; • Considered the procurement rule stemming from company ownership and concluded that normal procurement procedures are to apply as the company is not providing a service to the Council; • Provided a detailed options appraisal and financial projections over a six year period proceed with reference to a risk assessment; and • Indicated that it would take appropriate advice regarding structural, operational, governance and taxation issues, In November 2017, as part of its due diligence work, the Council, took external advice on the financial viability of both potential projects which the Green Gateway Trading Development Limited would oversee. The advice concluded that elements of the financial assumptions within both projects had been optimistic and as such some of the projects were not financially viable. As a result, in January 2018, officers moved to preparing an overarching Investment Strategy to include a full reassessment of all the schemes, including the current development plans and the financial assumptions underpinning them to determine whether alternative options should be considered if the current plans are not deemed viable. In March 2018, members decided not to not proceed with one of the projects and have placed the Company on hold. The Council is to amend the other projects and progress this outside of the Company at present. We extended our review of the governance arrangements to consider the impact of not seeking financial advice before or shortly after the initiation of the projects. We noted that: • The Council committed £0.5 million to the project, and although a proportion of these costs would have been incurred as part of the development of the Council's Asset Strategy, some were related to elements of the project which are now not being progressed; and • Savings of £369,000 to 31 March 2022 had been included in the February 2017 Medium Term Financial Plan before the schemes had been subject to an independent financial review. Once these were removed there was an increase in the budget gap. We therefore recommend that the Council should: • Establish guidance for the project management of complex capital projects, particularly the timeframes for obtaining specialist external advice to minimise potential abortive costs; • Clarify the evaluation process so that the reasons for the differences in scores are explicitly clear; • Ensure the risk register covers the financial viability of the chosen option, the robustness of the assumptions and the deliverability of the necessary financial returns. • Ensure the Treasury Management Strategy and financial projections show the relevant prudential indicators and impact on the minimum revenue provision; • Request clear recommendations from advisors, particularly as regards taxation ; and • Document the Council's review of the guidance to show how the Council has taken that guidance fully into account in its decision-making.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We have reviewed the Annual Governance Statement and confirmed it is consistent with other information from our audit of the financial statements. We requested amendments to include information about the governance arrangements for group activities and to include procurement as a significant governance issue.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 24 July2018. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

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

Description	Impact
Procurement In their report on procurement issued in June 2018, Internal Audit reported on five contracts, which had not complied with the Council's contract tendering procedures noting that there was a risk of breach of European Union tendering limits.	We followed up Internal audit's procurement report and the Council confirmed that a breach of European Union tendering limits had occurred for one contract. We noted that in comparison to Council spend, the contract sum is not material. The Council has appropriately included reference to the breach as a significant risk within the Annual Governance Statement. Management are also preparing a report to the Leadership Team to prevent such a breach re-occurring. Internal Audit will also review procurement as part of their 2018/19 Audit Plan.
Internal audit Internal Audit had not issued their final reports covering Debtors and Procurement audits by the May 2018 Audit Committee, when the Head of Internal Audit's opinion was issued.	Members and auditors had insufficient time to assess the impact of major findings in advance of the preparation of the accounts and annual governance statement. We had to undertake extra procedures late in the audit process to establish whether the Council had breached European tendering rules. We recommend that Internal Audit complete all key audit work by the date the Head of Internal Audit issues the audit opinion.
VAT Arrangements with Sanctuary Housing Sanctuary Housing complete specific reinvestment works on the properties transferred as part of the housing stock in 2017. Sanctuary Housing then claim the money from Her Majesty's Customs and Revenue (HMRC) and, following an external audit of the sums claimed, pay the Council a share of the VAT monies. As at 31 March 2018, Sanctuary Housing Group owe the Council £351,992.	Management report that the VAT arrangement is in line with an agreement dating from 2007 but are unable to produce the agreement. The Council have provided general guidance as regards the legality of such schemes. However, we have recommend that the Council revisits the scheme, updates its supporting documentation to demonstrate how the scheme applies to the Council and Sanctuary Housing Association and confirms the arrangement with HMRC.

06 Data Analytics

Use of Data Analytics in the Audit

[Data analytics – Area of the Financial Statements e.g., revenue recognition]

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 Council's audit included testing journal entries 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.

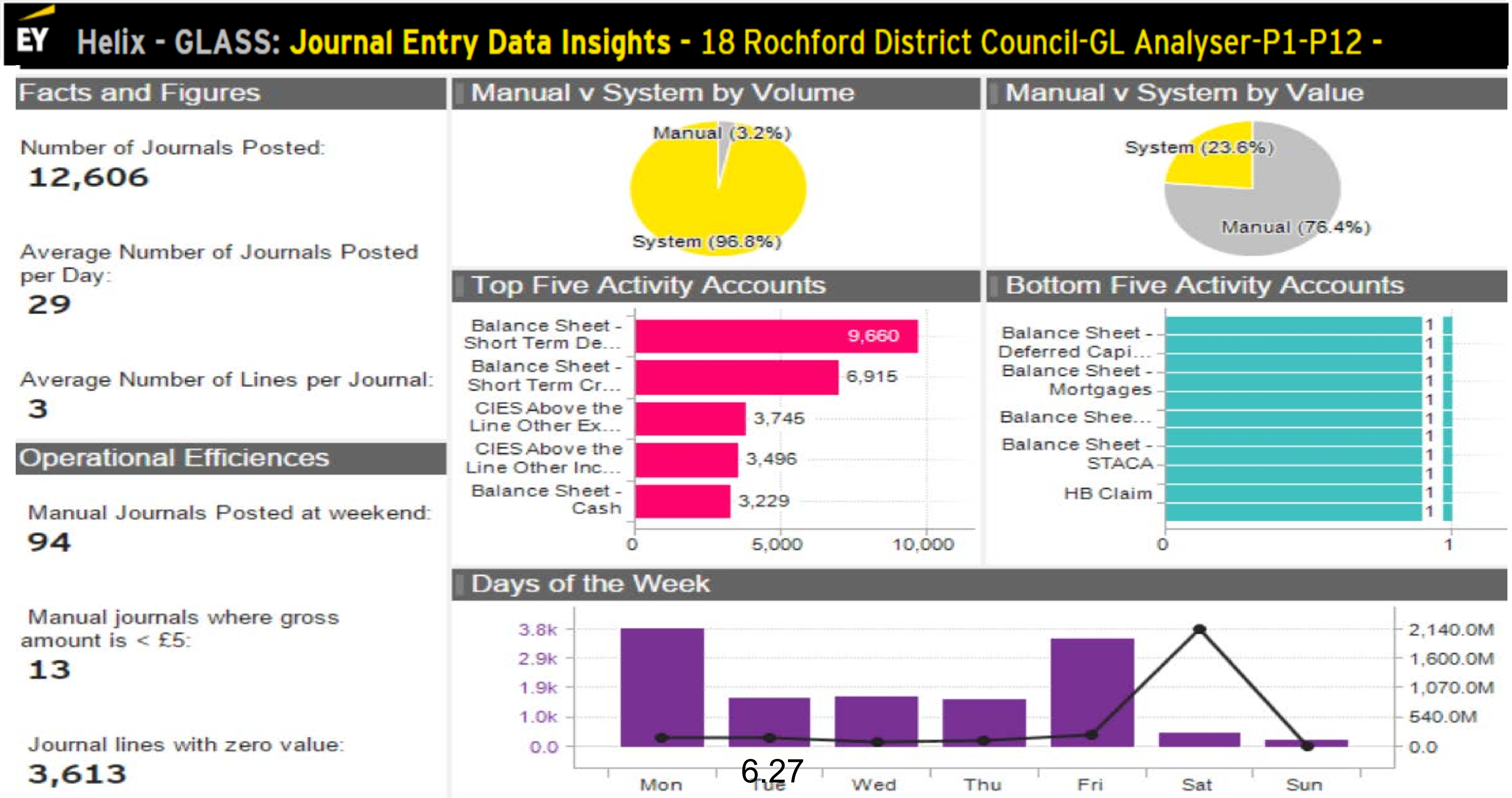
Journal Entry Analysis

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

Journal Entry Data Insights

The graphic outlined below summarises the LG journal population for 2017/18. 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.



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07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to: ▸ Reclassify existing financial instrument assets ▸ Re-measure and recalculate potential impairments of those assets; and ▸ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▸ Leases; ▸ Financial instruments; ▸ Insurance contracts; and ▸ For local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.	As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited. The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.

08 Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 2017/18 Annual Results Report.

Description	Final Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 20116/17 £
Total Audit Fee – Code work	64,154 See Note 1	47.657	55,526
Total Audit Fee – Certification of claims and returns	See Note 2	8,184	11,783
Total Audit Fee	To Be Confirmed	55,841	67,309

Note 1:

Our 2017/18 Audit Plan indicated the areas where a scale fee variation increase would arise from changes in the scope of the audit these being:

- The reduction in Performance Materiality from 75% of gross expenditure to 50% results from the extent and nature of errors reported in the 2016/17 financial statements.
- The preparation of Group Accounts for the first time;
- The change in estimation process for calculating the Business Rates Appeals Provision, which will now be calculated within the Finance Team rather than through a management expert; and
- The governance risks relevant to the creation of Green Gateway Trading Development Ltd which impacted on our value for money conclusion risk assessment

In addition, in our Audit Results Report, we highlighted the extra work undertaken during the 2017/18 audit and which has resulted in an extra fee.

In total this has resulted in a proposed additional fee of £16,497. We will discuss the additional fee in more detail with management, which will then subject to approval by the Public Sector Audit Appointments Ltd.

Note 2:

We have not yet completed our certification of the housing benefit subsidy claim and therefore cannot verify the final fee for this work. We will report this in our report on claims certification later in the year

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

EY | Assurance | Tax | Transactions | Advisory

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ED None

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