

## EXTERNAL AUDITOR REPORT UPDATES FOR 2016/17

### 1 PURPOSE OF REPORT

1.1 To draw Members' attention to the 2016/17 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 (The Council) following completion of their audit procedures for the year ended 31 March 2017.

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 2016/17 Annual Audit Letter is attached as Appendix 1.

2.3 The detailed findings from the 2016/17 Audit Results Report have already been reported to the Audit Committee on 26 September 2017.

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: <ul style="list-style-type: none"> <li>▶ Financial statements</li> </ul>	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
<ul style="list-style-type: none"> <li>▶ Consistency of other information published with the financial statements</li> </ul>	Other information published with the financial statements was consistent with the Annual Financial Statements.
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: <ul style="list-style-type: none"> <li>▶ Consistency of Governance Statement</li> </ul>	The Governance Statement was consistent with our understanding of the Council
<ul style="list-style-type: none"> <li>▶ Public interest report</li> </ul>	We had no matters to report in the public interest.
<ul style="list-style-type: none"> <li>▶ Written recommendations to the Council, which should be copied to the Secretary of State</li> </ul>	We had no matters to report.
<ul style="list-style-type: none"> <li>▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014</li> </ul>	We had no matters to report.

### 3 RESOURCE IMPLICATIONS

3.1 A scale fee variation increase of £7,869 has been agreed to reflect the additional work associated with additional testing of some areas. Details of the planned fees are set out below.

## Appendix A Audit Fees

Our March 2017 Audit Plan recorded planned fees for 2016/17 in line with the scale fee set by the PSAA Ltd.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	To Be Confirmed	47,657	47,657	52,657

We have undertaken extra work as a result of:

- The findings from changes to the CIES required by the CIPFA Code of Practice on Local Authority Accounting for 2016/17; and
- Assumptions within asset valuations requiring us to engage our EY Real Estates specialist team;
- Finding and addressing the error in the Fixed Asset Register and agreeing the corrections; and
- Delays in receipt of audit trails and information to complete both the financial statements and the value for money conclusion.

#### 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 There are no direct equality and diversity implications arising from this report.

#### 6 RECOMMENDATION

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

That the Annual Audit Letter for the year ended 31 March 2017 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](mailto:naomi.lucas@rochford.gov.uk)

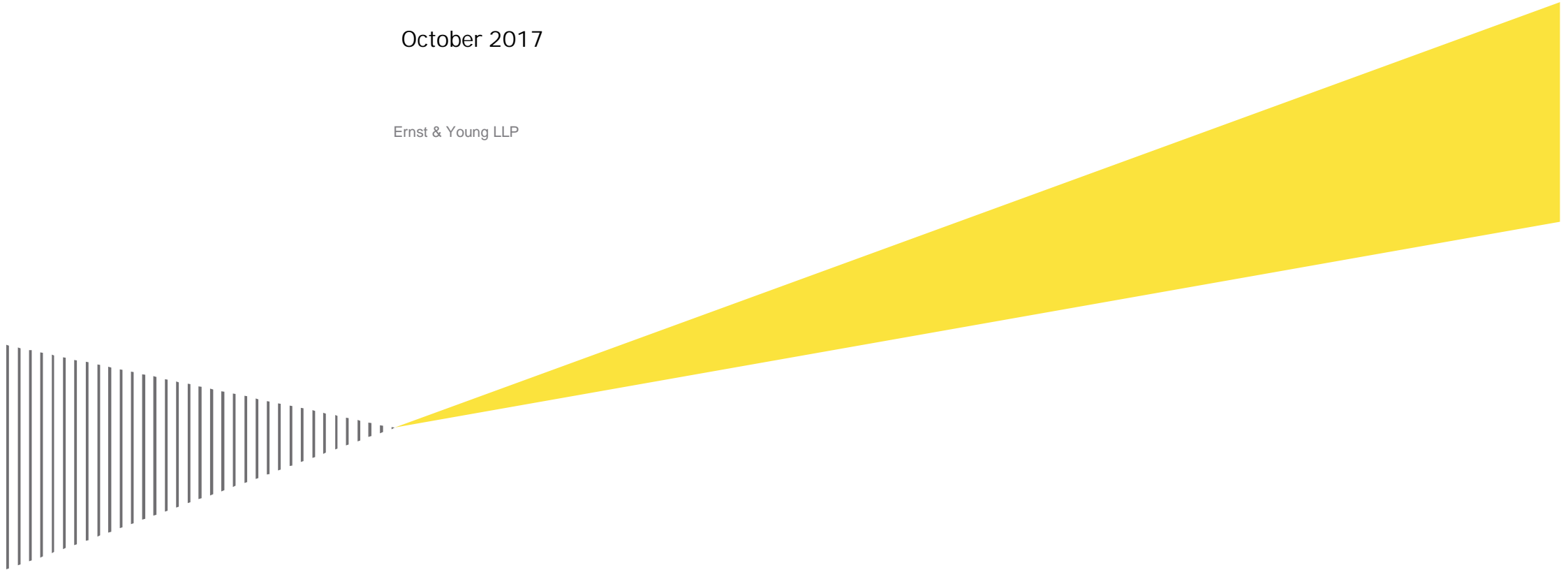
If you would like this report in large print, Braille or another language please contact 01702 318111.

# Rochford District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



## Contents

Executive Summary .....	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit .....	10
Value for Money .....	16
Other Reporting Issues.....	20
Focused on your future.....	23
Appendix A    Audit Fees .....	25

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.psa.co.uk](http://www.psa.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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Rochford District Council (The Council) following completion of our audit procedures for the year ended 31 March 2017.

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 2017 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 Financial Statements.
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 £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 12 September 2017 and discussed with the Audit Committee on 26 September 2017
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 the 26 September 2017.

In December 2017 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.

Kevin Suter  
Associate Partner

For and on behalf of Ernst & Young LLP  
United Kingdom



Purpose



## Purpose

### 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 2016/17 Audit Results Report to the 26 September 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



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 1 February 2017 and discussed at the 7 March 2017 Audit Committee 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 2016/17 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 thy 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 £350 million. 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.

A blurred office background featuring a laptop, several glasses of water, and financial documents on a desk. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

# 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 26 September 2017.

Our detailed findings were reported to the 26 September Audit Committee.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We had no matters to report.</p> <p>Our review of accounting estimates did not identify any evidence of management bias. We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>

Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.</p> <p>We did not find errors from testing cut-off processes.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>
<p>Financial Statement Presentation - CIES and EFA</p> <p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' (EFA) note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>The service analysis should be based on the organisational structure under which the Council operates.</p>	<p>We did not identify any material misstatements from our work on the Expenditure and Funding Analysis. The disclosures were deemed to be compliant with the Code of Practice.</p> <p>We did not identify any instances of inappropriate judgements being applied. The EFA and the CIES reflect the Council's organisational structure.</p> <p>We agreed the restated CIES comparative figures back to the Council's segmental analysis and supporting working papers, with no material issues noted.</p> <p>The change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. This meant that we incurred extra costs in performing our audit as anticipated in our 2016/17 Audit Plan.</p>



Other Key Findings	Conclusion
<p>Property, plant and equipment valuations</p> <p>Property, Plant and Equipment (PPE) represents a material item on the Council's balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis.</p> <p>This is carried out by an expert valuer and is based on a number of complex assumptions. Annually the valuer assesses assets to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>We involved our internal specialists due to concerns over the methodology and assumptions used by the Council's valuer for specialist buildings, such as leisure centres, valued at Depreciated Replacement Cost (DRC). In particular, the calculation of obsolescence, the application of fees to gross replacement cost rather than net replacement cost, and clarity over the areas of associated developed land.</p> <p>Our specialists provided a range for asset values. Having tested the assumptions made, we concluded that the valuations provided by the Council's valuer sit at the higher end of this range for 2016/17.</p> <p>The Council requested its valuers to value assets at 1 April 2016. To review impairment, the Council's valuers produced a further report indicating that DRC asset values may have increased by 7% to 31<sup>ST</sup> March 2017. However the Council failed to review asset values at the year-end due to time constraints. Given that it's values are at the higher end of our range, we have not requested the Council to revalue DRC assets. Such movements may be avoided if the Council moved to a later valuation date.</p>
<p>Pensions valuations and disclosures</p> <p>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.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.</p> <p>The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Essex Pension Fund.</p> <p>As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund deficits.</p>	<p>We have assessed and are satisfied with the competency and objectivity of the Council's actuaries.</p> <p>EY pension's team considered the work of PwC (the Consulting Actuary to the NAO) who reviewed the work of the actuaries. We considered the assumptions used by the actuary and adopted by the Council to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in Note 28 to the financial statements. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate.</p> <p>However, we consider that the methodologies used to derive the discount rate and Retail Price Index inflation assumptions to be optimistic and do not take adequate account of the specific duration of the scheme's liabilities. In future years, this could potentially lead to unacceptable assumptions.</p>

Other Key Findings	Conclusion
<p><b>Corrected Errors Impacting on Reserves</b></p> <p>During the audit, management corrected the financial statements for the following errors:</p> <ul style="list-style-type: none"> <li>▶ Management noted that they had unintentionally omitted a Housing Benefit journal during their close down procedures.</li> <li>▶ Our audit work identified a balance sheet code which had been incorrectly programmed as Income and Expenditure meaning that the balance of £0.138k from 2015/16 was not bought forward into 2016/17.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The journal is for £0.532m and related to Housing Benefit Overpayments that had been recovered in 2016/17 through netting off against ongoing Housing Benefit expenditure. The journal reduces short term debtors and increases expenditure in the Comprehensive Income and Expenditure Statement (CIES).</li> <li>▶ Management corrected the programming of this code and adjusted for this error which increased the cash balances and income in the CIES.</li> </ul> <p>The amendments reduced the balance on the General Reserve Fund from £1.736 million to £1.333 million.</p>
<p><b>Corrected Material Errors Not Impacting on Reserves</b></p> <p>Management had incorrectly accounted for gains on Property, Plant &amp; Equipment revaluations in both 2015/16 and 2016/17 requiring adjustments in both the current and prior period. Management had incorrectly updated the Fixed Asset Register for the revalued building amount but not the sum of revalued land.</p>	<p>Management amended for this error, which also occurred in 2015/16.</p> <p>As a result, the asset balance in the Balance Sheet has increased by £6.691m in 2016/17 and by £4.107m in 2015/16. These errors have also impacted on depreciation in the CIES, Revaluation Gains, Cash flow Statement and Reserves.</p>
<p><b>Other - Narrative Report</b></p> <p>We reviewed the information presented in the Narrative Report for consistency with our knowledge of the Council.</p>	<p>Management amended the Narrative report to include:</p> <ul style="list-style-type: none"> <li>• Financial information which was previously presented in the guide to the financial statements and;</li> <li>• Prior year comparatives for the key performance indicators. Commentary on significant changes between years has also been included.</li> </ul>

## 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	<p>We determined planning materiality to be £0.674 million (2015/16 £0.675 million), which is 2% of Gross Expenditure and Interest Payable reported in the accounts of £33.7 million.</p> <p>We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £34,000 (2015/16: £34,000)</p>

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 including any severance payments, exit packages and termination benefits: Our audit strategy was to check the bandings reported in Note 23 of the financial statements, test the completeness of the disclosure and make sure that the disclosure was compliant with the Code. We sample checked transactions back to the payroll system and supporting documentation.
- Related party transactions. Our audit strategy was to obtain and review declarations from senior officers and members of the Council for any material disclosures and make sure that the disclosure in Note 26 was compliant with the Code. We carried out a sample check of Companies House searches on contracts from the Council's contract register to identify whether any key decision-makers in the Council had an interest in the company. We carried out a sample check of Companies House searches between decision-makers in the Council and companies to which they were linked, to test the completeness of the disclosure. We obtained confirmation that there were no related party transactions within the declarations made by Member's at committee meetings they attended. No issues were noted.
- Members Allowances. Our audit strategy was to test the completeness of the disclosure and make sure that the disclosure was compliant with the Code by sample checking transactions back to the payroll system and the Council's Constitution. No issues were noted.

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 uncorrected errors to report.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

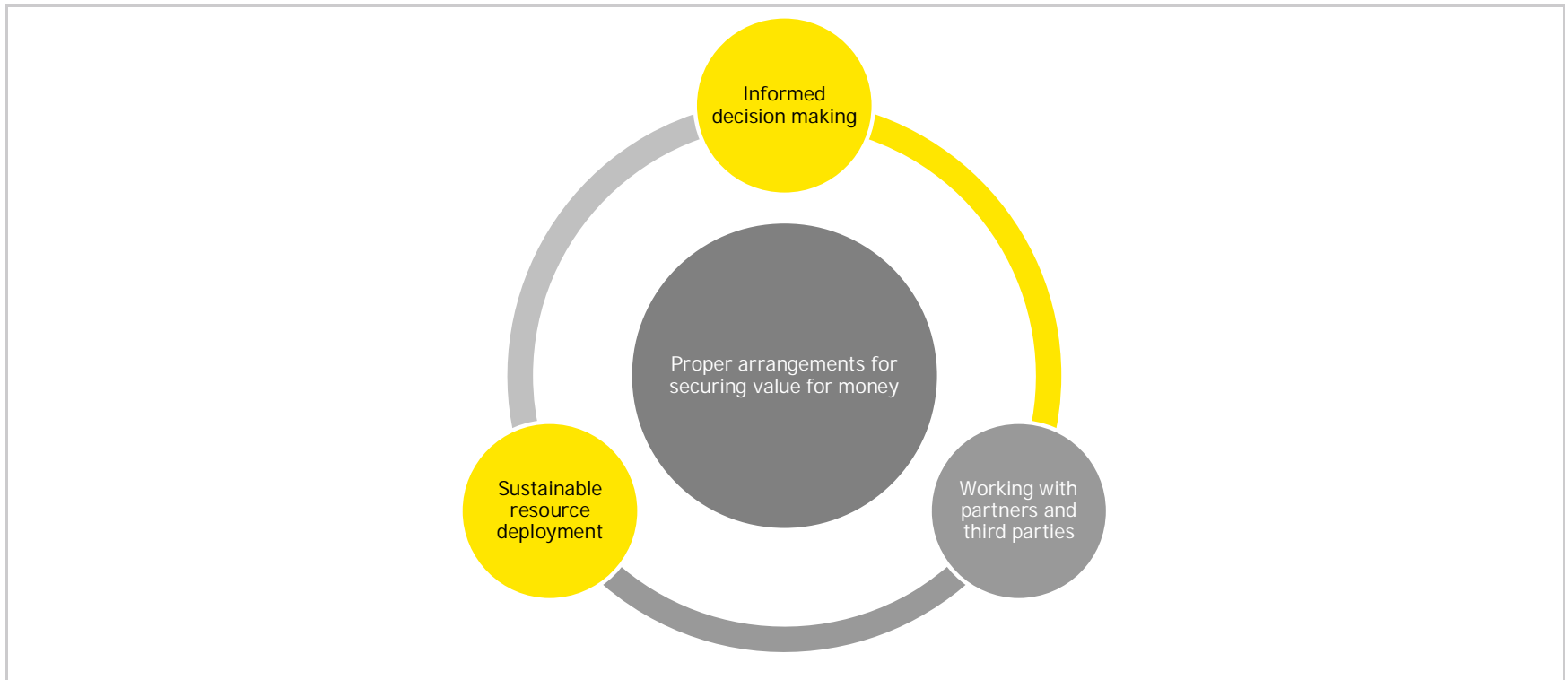
Value for Money

## 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.

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 deployed resources to achieve planned and sustainable outcomes for taxpayers and local people, and took properly informed decisions.

We therefore issued an unqualified value for money conclusion on 26 September 2017. The table below presents the findings of our work in response to this risk.

Significant Risk	Conclusion
<p>Sustainable Resource Deployment: Financial resilience – achievement of savings needed over the medium term</p> <p>The Council faces significant financial challenges over the next three to four years, with a forecasted underlying budget gap of £2.1m by 2021/22.</p> <p>Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.</p>	<p>The process for setting the Council's budget is sound. We concluded that the Medium Term Financial Plan (MTFP) identifies the key assumptions expected to underpin the 2017/18 budget. However, the Plan only provides an indication of the budget gap over five years. We recommend for transparency that the MTFP shows the base budget and growth items to show the gross expenditure, and the planned use of reserves and savings plans in place to profile how the budget gap is derived.</p> <p>We judge that there are no pressing concerns that financial austerity is impacting on the Council's performance. Only two of nineteen indicators are below target at 31 March 2017:</p> <ul style="list-style-type: none"> <li>· National Non-Domestic Rates collected (98.9% to 99.1% target); and</li> <li>· Benefit overpayments recovered: (23.2% against 30.5% target) due to the focus on new claims and changes impacting on the amount identified as overpayments</li> </ul> <p>The MTFP forecasts a budget gap of £2.1 million to 31 March 2022. The closing of the gap is dependent on the:</p> <ul style="list-style-type: none"> <li>· Delivery of the cumulative savings plans of £1.041 million to 31 March 2021;</li> <li>· Implementation of Investment and Member proposals of £1.4 million savings; and</li> <li>· The planned use of reserves of £30,000 in 2017/18 and none thereafter.</li> </ul> <p>Rochford DC has a record of achieving savings plans. Our review of the savings programme concludes the Council has arrangements to identify and deliver the savings needed. The Council assesses that 53% of plans and developments have good delivery prospects and 35% at medium risk. At present, the Council has sufficient reserves forecasting that it will maintain its General Fund at £1.1 million with earmarked reserves over the medium term at between £3 and £4 million</p> <p>Therefore, based on the known information as at the end of the financial year, we assessed the Council to have adequate arrangements.</p>

---

Informed Decision Making: Local Authority Trading Company (LATCo)

In 2016/17, the Council established a wholly owned limited liability LATCo to enable trading to take place for profit. 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 novel arrangement there may be risks relating to the governance arrangements for the company.

Our approach focused on the governance structure in place to manage the company. Our work reviewed the exempt June 2016 report to the Executive. The report comprised an options appraisal and business plan for externalising grounds maintenance operations into a separate Local Authority Trading Company (LATCo) called Green Gateway Trading Ltd. By this means the Council would control the company which would undertake the essential part of its activities on behalf of the Council, but could also provide up to 19% of its services to parties other than the Council. We also took note of Internal Audit's report into the governance arrangements of the LATCo.

Our review found that the Council had:

- Established of Green Gateway Trading Ltd with regard to the Council's strategic aim of become financially self-sufficient;
- Specified the appropriate powers by which to establish the company;
- Sought appropriate advice regarding structural, operational, governance and taxation issues;
- Undertaken appropriate due diligence covering technical, legal and finance matters, in establishing the Company;
- Considered and complied with the requirements of company ownership with the company undertaking the principal part of its activities with the Council so that no external tendering of the service was required; and
- Provided a detailed options appraisal and financial projections over a six to enable Members to make an informed decision, whether or not to proceed with reference to a risk assessment covering the key areas.

We agree with Internal Audit's assessment that the Council should put in place procedures to identify that turnover for Council and non-Council work is clearly identified so that the Council addresses the potential for breaching the rules on procurement at an early stage.

We recommended that management clearly documents the guidance it receives to show how it has taken that guidance fully into account in its decision-making.



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. We had no issues to report.

The Council is below the specified audit threshold of £350 million. 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.

Management amended the Annual Governance Statement to include details of period under review and to include commentary on the five limited assurance engagements identified by Internal Audit.

### 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.

### Objections Received

We did not receive any objections to the 2016/17 financial statements from member 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 26 September 2017. 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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements. However, we reported the matters below in our Audit Results Report. The matters reported 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
Our audit work identified balance sheet codes which had been incorrectly programmed as Income and Expenditure	The error can result in incorrect entries in the financial statements. We have recommended that management ensures that its financial systems can run an opening trial balance or implement their own manual opening balances check going forwards
Management had accounted for gains on revaluation incorrectly in both 2015/16 and 2016/17.	The error resulted from incorrect formulae within the Fixed Asset Register and were material requiring a prior period and current period adjustment. We have recommended that management undertakes a quality review of the Fixed Asset Register as part of their close down procedures

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are closed, and their hands are holding the binoculars. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Council has reviewed and amended the closedown process over the last year. Through working together, we agreed areas for early work in the 2016/17 audit which included testing of major income and expenditure streams based on information available in December 2016 to reduce testing at the final accounts audit in the Summer.</p> <p>We met with the Council's Finance Team on 26 September to reflect on the closure process for the 2016/17 financial statements. We both identified a number of areas where the closedown and audit processes can be further improved going forward.</p> <p>For 2017/18 we are planning for extensive testing across a number of areas based on November 2017 information, earlier completion of valuation and contract work and also the Value for Money conclusion by 31 March 2018.</p>
<p><i>Forthcoming changes to accounting standards:</i>  <i>IFRS 9 Financial Instruments</i>  <i>IFRS 15 Revenue from Contracts with Customers</i>  <i>IFRS 16 Leases</i></p>	<p>Revised accounting standards are expected to be applicable for local authority accounts from the 2018/19 (IFRS 9 (financial Instruments) and IFRS15 (revenue) and 2019/20 financial year IFRS 16 (leases).</p> <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 and 2019/20 Accounting Code of Practice for Local Authorities have yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>CIPFA issued some initial thoughts on the approach to adopting IFRS 9 and IFRS 15, but until the Code is issued and any statutory overrides are confirmed there remains some uncertainty.</p> <p>For IFRS 16, it is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented</p> <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix A

## Audit Fees

## Appendix A Audit Fees

Our March 2017 Audit Plan recorded planned fees for 2016/17 in line with the scale fee set by the PSAA Ltd.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	To Be Confirmed	47,657	47,657	52,657
Total Audit Fee – Certification of claims and returns	To Be Confirmed	8,520	8,520	8,184
Non-audit work	0	0	0	750

We have undertaken extra work as a result of:

- The findings from changes to the CIES required by the CIPFA Code of Practice on Local Authority Accounting for 2016/17; and
- Assumptions within asset valuations requiring us to engage our EY Real Estates specialist team;
- Finding and addressing the error in the Fixed Asset Register and agreeing the corrections; and
- Delays in receipt of audit trails and information to complete both the financial statements and the value for money conclusion.

We anticipate a scale fee variation will be necessary, which we will discuss in the first instance with the Section 151 Officer. We will update the Audit Committee on our proposed fee variation when this has concluded. Any variation to the 2016/17 scale fee is subject to approval by Public Sector Audit Appointments Limited (PSAA).

Our certification of the housing benefits claim takes place in October and November 2017. We will confirm the final fees charged in our certification report to be issued to the Council in December 2017.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements in 2016/17.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](http://ey.com)