

# Huntingdonshire District Council

Annual Audit Letter for the year  
ended 31 March 2018

August 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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working world

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Focused on your  
future



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.



# 01 Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Huntingdonshire District Council (the 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
<b>Opinion on the Council's:</b>	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
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ 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
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	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)

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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 25 July 2018 and again on 31 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 31 July 2018.

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

Neil Harris  
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 26 July 2018 Corporate Governance 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 14 March 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 your Whole of Government Accounts return. The Council is below the specified audit threshold of £500 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. 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 31 July 2018.

Our detailed findings were reported to the 26 July 2018 Corporate Governance Committee, with an updated report being issued on 31 July 2018.

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

## Significant Risk

### Misstatements due to fraud or error

The 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.

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation. We have also specifically considered the calculation of statutory reserve adjustments impacting the general fund such as the minimum revenue provision (MRP) and revenue expenditure financed from capital under statute (REFCUS).

Linking to the presumed risk of fraud in revenue and expenditure recognition we have identified the inappropriate capitalisation of expenditure on Property, Plant and Equipment as a risk as well as the valuation of the NNDR appeals provision. This has been identified as a specific risk as set out on the next page, and therefore we have not repeated that information here.

## Conclusion

In undertaking our work on management override of controls we have considered the balances included in the Authority's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be the NNDR appeals provision, the valuation of Property and the valuation of pension liabilities. Due to the significance of PPE and pension valuations on the financial statements we have included them as higher inherent risks in our audit strategy and include a separate section to report on these separately below and not repeated that information here. Given that the impact of valuation and measurement of property, plant and equipment and pension liabilities do not impact the general fund we do not consider these to be significant estimates subject to fraudulent misreporting. The valuation of the NNDR appeals provision has been identified within our expenditure recognition risk as set out on the previous page, and therefore we have not repeated that information here.

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population 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. In response to our work over statutory adjustments relating to REFCUS and MRP we have included specific journal tests to identify any unusual activity. We have also reviewed and tested the calculation of MRP, as well as the amounts classified as REFCUS in the financial statements.

We also evaluated the business rationale for any significant unusual transactions - none were identified.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We have not identified any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Risk of fraud in expenditure recognition through inappropriate capitalisation of expenditure and valuation of NNDR appeals provision</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>The Council has historically performed well in relation to their outturn position for the year. In 2017/18 the Council incurred a surplus of £0.1 million chargeable to the General Fund. As the Authority is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Authority's standard income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Authority's capital programme. We will also considered other areas where management can apply judgement and estimation, including the valuation of the NNDR appeals provision.</p>	<p>In considering this risk we have focussed on management's judgement in capitalising expenditure as PPE. The Authority has a number of capital programmes and therefore judgement can be exercised in the allocation of costs between expenditure charged to the Comprehensive Income and Expenditure Statement (CIES) and capital expenditure. This judgement impacts the valuation/measurement of the expenditure and also the existence of the asset on the balance sheet and completeness of expenditure included within the Comprehensive Income and Expenditure Statement (CIES). We have also considered the valuation of the NNDR appeals provision at the year end with a focus on any judgements management have made particularly in relation to expected new provisions arising from the change of rateable values at 1 April 2017.</p> <p>We have performed the following specific procedures over the identified risk areas:</p> <ul style="list-style-type: none"> <li>▶ <b>Capital additions testing</b> - We selected a sample of capital additions based on our established testing threshold and tested these to confirm that all amounts could be agreed to appropriate audit evidence (e.g. invoice, valuation certificate etc.) and that the item being capitalised was capital in nature. Our testing has not identified any material misstatements from the inappropriate capitalisation of expenditure.</li> <li>▶ <b>Journal entry testing</b> - As part of our journal testing we included specific tests to search for unusual activity that moves expenditure from the CIES to PPE on the balance sheet. No unusual activity was identified as part of our review.</li> <li>▶ <b>NNDR appeals provision</b> - New rateable values became effective from 1 April 2017, which means that the Council has made a provision for the expected claims arising from this, in addition to reassessing the provision for the 1 April 2010 rateable value listing. We have considered the assumptions used in the calculation and consider them to be reasonable. We note that the Council uses an external specialist to assist in the calculation of the liability. We have assessed the work of the specialist, including considering their qualifications and experience with no significant issues identified. The new provision on the 1 April 2017 rateable values has been calculated based on the success rate on previous claims. This equates to c4.5%. We note that in order to be materially different the rate will need to move by c4% in either direction to create an error greater than performance materiality. Based on the success rate of claims to date we consider the provision included to be reasonable.</li> </ul> <p>We have also considered the following:</p> <ul style="list-style-type: none"> <li>▶ Reviewed the appropriateness of revenue and expenditure recognition accounting policies and testing that they had been applied correctly during our detailed testing.</li> <li>▶ Performing cut off testing and unrecorded liabilities testing to consider the completeness of assets and liabilities included in the financial statements.</li> <li>▶ Evaluating the business rationale for any significant unusual transactions.</li> </ul> <p>Our testing has not identified any material misstatements from the inappropriate capitalisation of expenditure.</p> <p>Overall, we have not identified any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.</p>

## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Valuation of investment property item</b></p> <p>The fair value of Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>There is one IP asset with a net book value of £5 million (£7 million as at 31 March 2017) representing c.14% of the IP portfolio which has been identified as requiring extensive repair and renovation. The quantum of work has been estimated at £2 million and has been taken into account when calculating the £5 million. This adds an additional layer of complexity to the valuation approach and as a result there is a risk that the financial statements could be materially misstated at year-end.</p> <p>The overall valuation of investment property was designated as an area of audit focus last year with a higher inherent risk due to the assumptions/judgement and estimation used in calculating the valuation of the property. This risk continues to remain and we have covered this further in the valuation of capital assets section below.</p>	<p>We have undertaken the following procedures:</p> <ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ Engaged our internal valuation specialists to assess the work of the valuer and the methodology applied.</li> <li>▶ In relation to the costs deducted from the valuation, these are based on an estimate of the cost of the works required following receipts of the structural engineers report. A number of assumptions have been made in the calculation of these. We note that the overarching approach has been to utilise the original build costs from when the property was constructed in 2004-2006 and then allocate a share of the costs based on the percentage of the area impacted within the building. We have reviewed the methodology and undertaken work to verify the original costs, the assumptions made by the Council's expert and the relevant floor plans. We have also verified the scope of works back to the structural engineers report.</li> </ul> <p>In undertaking our work we have not identified any significant issues but bring to your attention the following matters:</p> <ol style="list-style-type: none"> <li>1. No issues were identified in relation to the valuers approach to valuing the property. We note that our specialists estimated the value of the property to be in the region of £4.9 million to £6.1 million, meaning that the value assigned of £5 million was within the range, albeit at the lower end.</li> <li>2. The £2 million costs deducted from the value of the property are not based on recent construction costs and include a high number of assumptions. The costs do not take into account inflation, however we note that this would not be significant to the total costs. We have performed sensitivity over the costs and note that they would need to be incorrect by up to 47% in either direction to result in a material misstatement.</li> </ol> <p>Our testing did not identify any material misstatements from the valuation of this asset.</p> <p>Assumptions used by the valuer and adopted by the Council are considered to be generally acceptable.</p> <p>No other issues have been identified in completing our work.</p>

## Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p><b>Valuation of capital assets</b></p> <p>Property, Plant and Equipment ( PPE) and investment properties (IP) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular. The Authority will engage external expert valuers who will apply a number of complex assumptions to these assets. Annually, assets are assessed to identify whether there is any indication of impairment.</p> <p>As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Investment Properties'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We:</p> <ul style="list-style-type: none"><li>▶ 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.</li><li>▶ Reviewed and sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans).</li><li>▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.</li><li>▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated and whether asset categories held at cost have been assessed for impairment and are materially correct.</li><li>▶ Considered external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the Cambridge area where relevant. Specifically we have considered if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued.</li><li>▶ Considered changes to useful economic lives as a result of the most recent valuation and tested that the valuation accounting entries have been correctly processed in the financial statements, including the treatment of impairments.</li></ul> <p>Whilst we did not identify any instances of inappropriate judgements being applied we did identify a number of discrepancies in the following two areas:</p> <ol style="list-style-type: none"><li>1. One incorrect use of base data by the valuer in their calculations. The impact of this error is an increase to the property value of £133k. Having undertaken some additional work we have considered the impact of the error on the remaining population and have included an extrapolated error of £457k, along with the £133k above.</li><li>2. A number of variances between the fixed asset register and valuers report totalling £170k were identified.</li></ol> <p>The above two items were included as uncorrected errors in the financial statements.</p> <p>Assumptions used by the valuer and adopted by the Council are considered to be generally acceptable.</p> <p>No other issues have been identified in completing our work.</p>

# Financial Statement Audit (cont'd)

Other Key Findings	Conclusion															
<p><b>Pension valuations and disclosures</b></p> <p>The Local Council Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by Cambridgeshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £74 million (£72 million at 31 March 2017).</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We have liaised with the auditors of, Cambridgeshire Pension Fund, BDO, to obtain assurances over the information supplied to the actuary in relation to Huntingdonshire District Council.</p> <p>We have assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. The assumptions used by the actuary have been reviewed by both PwC and our EY actuarial team who have both concluded that the assumptions and methodology used are considered to be appropriate.</p> <p>We have reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19 - no issues have been noted.</p> <p>In calculating the scheme assets as at 31 March 2018 the actuary performs a roll forward technique based on asset data submitted to them by the Pension Fund at 31 December 2017.</p> <p>The reporting from the Pension Fund auditors highlighted that the market value of the pension fund assets at 31 March 2018 is £2,958 million. When compared to the actuaries estimate of the fund assets at 31 March 2018 of £2,891 million this creates a judgemental difference of £67 million.</p> <p>Management obtained a revised IAS19 report from the actuary and amended the financial statements, reducing the net liability position by £1,865k.</p> <p>Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.</p> <p>No other issues have been identified in completing our work.</p>															
<p><b>Donated asset</b></p> <p>Included in the draft financial statements was a donated asset of £860k, which also impacted grant income and revenue expenditure funded from capital under statute (REFCUS). On review of the transaction we identified that this related to the transfer for one of the Council's assets, plus a £300k grant, to another local authority in exchange for one of their assets. The decision to undertake the transaction was approved by the Overview and Scrutiny Committee in November 2016.</p>	<p>The treatment adopted in the financial statements treats each of the elements of the transaction separately, however, as they are linked to one another the treatment set out in the Code on exchange of assets should have been applied. This has resulted in a net reduction to the surplus/deficit on the provision of services of £560k.</p> <p>Management has agreed with the revised treatment and has made the appropriate adjustments to the financial statements. This has included the following correcting double entry:</p> <table border="0" data-bbox="808 1252 2134 1412"> <tr> <td>Dr CIES - Taxation and non-specific grant income</td> <td style="text-align: right;">£860k</td> <td></td> </tr> <tr> <td>Cr CIES - net cost of services</td> <td></td> <td style="text-align: right;">(£300k)</td> </tr> <tr> <td>Dr Movement in Reserves Statement</td> <td style="text-align: right;">£560k</td> <td></td> </tr> <tr> <td>Cr Capital Adjustment Account</td> <td></td> <td style="text-align: right;">(£560k)</td> </tr> <tr> <td>Cr Revaluation reserve</td> <td></td> <td style="text-align: right;">(£560k)</td> </tr> </table>	Dr CIES - Taxation and non-specific grant income	£860k		Cr CIES - net cost of services		(£300k)	Dr Movement in Reserves Statement	£560k		Cr Capital Adjustment Account		(£560k)	Cr Revaluation reserve		(£560k)
Dr CIES - Taxation and non-specific grant income	£860k															
Cr CIES - net cost of services		(£300k)														
Dr Movement in Reserves Statement	£560k															
Cr Capital Adjustment Account		(£560k)														
Cr Revaluation reserve		(£560k)														

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.

## 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 to be £1.854 million (2017: £1.808 million), which is 2% of gross expenditure on net cost of services plus expenditure on parish council precepts, drainage board levies, interest payable and pension interest costs reported in the accounts. We consider this to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Corporate Governance Committee that we would report to the Committee all audit differences in excess of £0.09 million (2017: £0.09 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, related party transactions and councillor allowances - As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



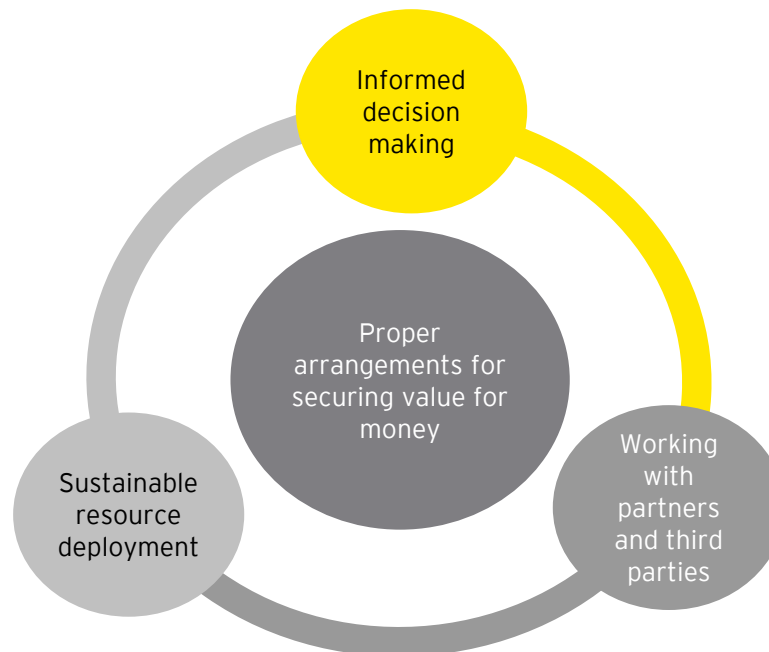
# 04 Value for Money

# £ 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 are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We identified one significant risk 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.

Whilst they are not significant risks we have also set out our high level considerations of the Council’s financial resilience and considered the purchase of an out of area property during the year.

We issued an unqualified value for money conclusion on 31 July 2018.



# Value for Money (cont'd)

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>In the prior year we experienced significant difficulties in completing our audit. This included the adequacy of working papers and their reconciliation to the financial statements, the timeliness of deliverables and responses to auditor queries, over reliance on key individuals, and a number of adjustments being amended in the financial statements.</p> <p>All of the above has had an impact on the efficiency of the accounts and audit process for both the Council and us as your auditors.</p> <p>Following the prior year audit there have then been changes in the finance team resulting in a strain on resources and work on areas such as the budget. An interim Chief Accountant has recently been engaged to manage the finance team and lead on the preparation of the 2017/18 financial statements.</p> <p>The faster close timetable in 2017/18, as well as the pressure of implementing a new finance system ready for 2018/19 will put considerable strain on the finance team's ability to deliver conflicting priorities.</p> <p>Whilst our risk assessment for the financial statements audit has not identified a heightened risk in any particular area, we do consider that there is a risk to demonstrating that there have been effective arrangements in place to demonstrate the Council has planned, organised and developed the workforce (namely the finance team) to deliver the financial statements. The additional time and costs incurred by the Council during the accounts and audit process, risks distracting staff from the ongoing delivery of strategic priorities and should be avoidable with effective planning and resource deployment.</p> <p>The risks to not being able to prepare and sign off on the financial results for the year also raises risks around the Council's ability to take informed decisions, where decisions are made on draft information which is then subject to significant amendment.</p>	<p>Take informed decisions / Deploy resources in a sustainable manner</p>	<p>Our approach has focussed on the following:</p> <ul style="list-style-type: none"> <li>▶ Reviewing the changes made to the financial reporting process to address the issues identified in the prior year;</li> <li>▶ Reviewing the accounts closedown timetable, including the timescales for the preparation of the financial statements and supporting working papers ready for audit;</li> <li>▶ Considering the Council's allocation of tasks to individuals in the finance team for both preparation and review to ensure these are reasonable;</li> <li>▶ Assessing the results of the interim audit for improvements in the process;</li> <li>▶ Considering the adequacy of the draft financial statements and working papers, as well as the finance teams ability to respond to additional queries in a timely manner;</li> <li>▶ Consider the overall accounts and audit experience as we complete the audit, seeking validation that changes have been made to address the issues identified in the prior year;</li> <li>▶ Reviewing internal audit reports to identify any significant issues identified during finance related reviews and consider the impact on the overall control environment;</li> <li>▶ Reviewing the monitoring of the significant findings arising from our audit in 2016/17 as part of the Corporate Governance Committee; and</li> <li>▶ Testing for any significant impact resource capacity has had on the Council's in year financial reporting and budget setting. This will include comparing forecast vs actual outturns, assessing appropriate segregation of duties in the preparation and review/sign off of quarterly reporting and budget setting during 2017/18. We will also assess the appropriateness of significant assumptions used in the budget setting process for appropriateness.</li> </ul> <p>In undertaking our procedures we have not identified any significant issues. We acknowledge that there has been resource dedicated to rectifying prior year issues and that this has resulted in a number of the prior year issues being resolved. At the same time as preparing for the accounts and audit process the finance team have also managed the migration to a new finance system.</p> <p>We have provided an update on the prior year control finding in section 7.</p>

## Value for Money Considerations – Financial resilience

### What are our findings?

The Council has historically performed well in relation to their outturn position for the year. In 2017/18 the Council incurred a small surplus of £0.1 million chargeable to the General Fund as set out in the Movement in Reserves Statement. To date the Council has responded well to the financial pressure it faces.

The Council's general fund balance as at 31 March 2018 stands at £2.658 million which is in line with the minimum level set by the Section 151 officer. The Council also has earmarked reserves (£16 million at 31 March 2018) which have been established for a number of purposes, including a Strategic Transformation Fund (£0.07 million), Commercial Investment Reserve (£3.598 million), Special Reserve (£1 million), Budget surplus reserve (£2.212 million) and other reserves (£2.123 million). In addition to the above there are also other earmarked reserves for repairs and renewals, collection fund and S106 monies.

The existence of these reserves provides evidence of the Council's prudent approach to financial management. These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Council's financial standing. The Council plans to maintain this level of General Fund reserves indefinitely and we note that the projected general fund reserves in the MTFS does not fall below the target level over the next 3 years. The Authority plans to maintain this level of General Fund reserves over the medium term by making contributions to it from the budget surplus reserve.

The 2018/19 budget is balanced, through the use of efficiencies, income plans, but also the use of general fund reserves. The level of savings identified is £0.7 million and the budget also includes £1m in relation to investment income through the Commercial Investment Strategy.

While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans to date gives confidence that it can continue to do so. However, this will become harder over time, and therefore the council must ensure that it continues to ensure it identifies ways to be self financing over the longer term.

We also reviewed the key assumptions in the budget and MTFS, which adequately took into account the economic environment at that time for business rate projections, and the forecast for reduced central government funding and the potential settlement.

Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery has not identified any significant matters that we wish to report to you.

## Value for Money Considerations – Commercial investment

### What are our findings?

The Council has been actively pursuing its commercial investment strategy over the past few years, and 2017/18 has included the purchase of an additional out of area property.

As government funding continues to come under pressure, the reliance on commercial revenue streams becomes heightened. The nature of commercialisation exposes to the Council to additional risks around property values, achievement of investment yields and more volatility in the preparation of budgets.

Where the Council is borrowing to invest in its strategy it is also important the Council considers all costs associated with the related investment, to confirm that the overall net return is consistent with the assumptions being included in the medium term financial strategy.

As part of our audit procedures we have:

- ▶ Reviewed the decision making process for the acquisition of the out of area property purchased during the financial year, including any associated due diligence, and at a high level the factors taken into account in calculating the investment yield. We noted that the Council prepared a best, worst and expected scenarios for the expected returns and often built in a more pessimistic view when calculating these.
- ▶ Reviewed the assumptions on commercialisation included in the 2017/18 budget and compare these against the actuals achieved, seeking explanation for any significant variance.
- ▶ Reviewed the process for ongoing monitoring and reporting of the commercial investment strategy.
- ▶ Reviewed the assumptions included in the medium term financial strategy and consider them for appropriateness.
- ▶ Considered any recent case law and how the Council has taken this into account when reviewing their commercial investment strategy.

During our review we identified that as part of the purchase of the property the Council was required to invest in two companies responsible for the management of the site. Whilst the shareholding is not material to the Council, there is no evidence to demonstrate that the Council's investment in these two entities was considered as part of the decision making process. We would expect matters such as these to be fully considered as part of the governance process to mitigate any risks to the Council in the future. We do not consider this to be a significant value for money matter.

Having considered the above, and in the absence of any case law in relation to this in the financial year ended 31<sup>st</sup> March 2018 we are not minded to challenge the Council's arrangements. We do note that the Council will, as part of its capital strategy and financial plans, continue to consider its options on future commercial investments and in doing so intends to apply the same due diligence it has undertaken to date and seek further independent legal, tax and professional services advice as necessary. This is an area in which we will continue to review the Council's decision making process and will form part of our 2018-2019 external audit plan.



## 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. We had no issues to report.

The Council is below the specified audit threshold of £500 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.

### 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 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 Corporate Governance Committee on 28 March 2018 and 26 July 2018. 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.

## Other Reporting Issues (cont'd)

### 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 your financial statements of which you are not aware. We have provided an update on the significant deficiency identified in the prior year on the following page.

### Description

**Preparation of the financial statements and related working papers** - We encountered the following difficulties during the prior year audit which we believe had a detrimental effect on our ability to complete this audit efficiently.

1. Accounting records : We audited areas where the accounting records which the Council maintains were not initially sufficient for us to be able to complete our audit in the most efficient manner. This was particularly an issue when auditing creditors and debtors, leases and cash for the Council. In particular, the working papers for debtors and creditors were not suitable for audit as they included a movement of all transactions during the year rather than just the balances that remained outstanding at the balance sheet date. It took various iterations being reviewed by management and us, in addition to several meetings to eventually generate useable working papers. The Council also incurred difficulties in mapping the general ledger data to the financial statements and to the categories used in our data analytics tools, being assets, liabilities, income, expenditure and equity. We held a number of meetings with the finance team and reviewed several of iterations of the reconciliation before receiving a final version that could be used for audit. We should note that this still included a difference of £321k that could not be mapped. We note that the issues with debtors, creditors and data mapping are consistent with those encountered in the prior year.

2. Timeliness of deliverables : There were several occasions where the length of time between requesting a deliverable or working paper, and actually receiving it was longer than agreed. This meant that our staff had often finished their time on site for the audit by the time the information was available. There were some areas of our audit requested in the first two weeks of the audit that were not received until weeks 4 and 5.

3. Reliance on key personnel : During our time on site there were often staff unavailable either through illness or because the work had been completed by an external contractor. This caused delays in answering queries and in some instances demonstrated an over-reliance on individuals.

All of the above has had an impact on the efficiency of the accounts and audit process for both the Council and us as your auditors. We recommend that the Council undertake a thorough review of their processes, procedures and working papers. This is particularly important given the faster close deadline for 2017/18. Due to the above delays we will be seeking to agree a fee for the additional costs incurred.

### Update

We have seen leadership, commitment and engagement from management in addressing the issues arising from the prior year audit. The Council's finance team has invested in enhancing working papers and ensured that the accounts and audit process has been delivered alongside the implementation and migration to a new finance system. In particular, we have not had any significant issues with the debtors and creditors working papers or the mapping of the general ledger to the financial statements. We have seen a general improvement in the working papers and provision of evidence, and there has been a high degree of partnership working between both the finance team and us. Whilst, we have seen a significant improvement which should be commended, we have still experienced some issues with the following areas:

- ▶ Agreed timescales for the provision of evidence and query resolution have not always been met in certain areas of the audit. This has created some pressures on the close down of areas of the audit.
- ▶ A bank reconciliation as at 31 March for one of the Council's accounts had not been completed.
- ▶ We have seen an increase in the level of issues within fixed assets, particularly in relation to the reconciliation of the information provided by the Council's valuer to the fixed asset register.

We no longer consider these matters to be significant control deficiencies but recommend the Council continues to enhance their closedown process.



06

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
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items.</li> </ul> <p>The Authority is yet to carry out a review of their financial instruments to assess the potential impact.</p>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>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.</p> <p>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 vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>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.</p> <p>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 when that trading company is consolidated.</p> <p>Given the nature of the Authority's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the single entity financial statements of the Council. However, the Authority is yet to carry out a review of contract income from service recipients to assess the potential impact.</p>





## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>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.</p> <p>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.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>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.</p> <p>The Authority is yet to carry out a review of their leases to assess the potential impact.</p>

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# 07 Audit Fees

## Audit Fees

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

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

	Final fee 2017/18	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£	£
PSAA scale fee - Code work*	53,236	53,236	53,236	53,236
Prior year overrun	N/A	N/A	N/A	22,603
Impact of lower materiality thresholds	10,000 - 12,000	8,000 - 12,000	N/A	N/A
Investment property significant risk	3,000 - 4,500	2,500 - 3,000	N/A	N/A
Value for Money significant risk	2,000 - 3,500	2,000 - 3,500	N/A	N/A
<b>Total audit</b>	<b>68,236 - 73,236</b>	<b>65,736 - 71,736</b>		<b>75,839</b>
Other non-audit services not covered above (Housing Benefits)	18,136	18,136	18,136	17,522
<b>Total other non-audit services</b>	<b>18,136</b>	<b>18,136</b>	<b>18,136</b>	<b>17,522</b>
<b>Total fees</b>	<b>86,372 - 91,372</b>	<b>83,872 - 89,872</b>	<b>71,372</b>	<b>93,361</b>

All scale fee variations will be subject to agreement with the PSAA.

\*We have experienced some delays in finalising our audit work. We will therefore discuss with management any expected additional fees arising from this and will report these to you once agreed.

We have included a number of fee ranges above for the additional work we are required to complete as part of the current year audit. These relate to:

1. The impact of being required to undertake our audit to a lower materiality level as a result of the findings arising from the prior year audit. The lower threshold against which our audit procedures are to be performed means that additional audit testing will be required. This also decreases our threshold for investigating variances where we performed procedures such as substantive analytical review.
2. The additional work required as a result of the increase risk associated with investment properties, primarily relating to the use of EY specialist to provide assurance over the valuation of one particular asset.
3. The work required to address the significant value for money risk set out in section 4.

We are in the process of finalising the overall fee implications following the conclusion of our audit work. We will agree this with management and provide you with updates accordingly.

All scale fee variations will be subject to agreement with the PSAA.

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