

Uttlesford District Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

25 September 2014



Building a better
working world

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Executive summary

Key findings

Audit results and other key matters

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

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 18 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit demonstrates, that although the Council has prepared its financial statements well there are a number of amendments needed to address the requirements of the Code. There were two material issues;
 - The correction of previous year entries in the Revaluation Reserve (RR) and the Capital Adjustment Account (CAA). This resulted in a prior year amendment which restated the 2012/13 figures and 2013/14 opening balances for these reserves. The adjustment is within unusable reserves and has no impact on the bottom line of the balance sheet or the Council's financial standing. Further in year adjustments between these reserves were also made.
 - The underestimation of the provision for NDR appeals. The original estimate did not include provision for appeals not yet received. This adjustment has resulted in an increase in the provision from £6,810k (Uttlesford share £2,724k) to £11,525k (Uttlesford share £4,610k).

Value for money

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

Whole of Government Accounts

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

Audit certificate

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

Extent and purpose of our work

The Council's responsibilities

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

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

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

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

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>1. There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<ul style="list-style-type: none"> We reviewed the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice; and We reviewed the Councils provision for business rate appeals to ensure it was calculated on a reasonable basis in line with IAS37. We ensured the provision was supported by appropriate evidence and that the level of estimation uncertainty was adequately disclosed in the accounts. 	<ul style="list-style-type: none"> We can confirm that the accounting treatment adopted by the Council for business rates was appropriate and in compliance with the CIPFA Code of Practice. However, our audit work identified a number of issues with the estimation of the NDR appeals provision. We found; a number of appeals that had been settled after the draft accounts were produced at a lower RV than originally provided for and a number of high risk property categories that had not been provided for. In addition no provision had been made for appeals not yet received. These issues were discussed with the Council and it's consultants. Revised figures were produced which increased the provision from £6,810k (UDC share £2,724k) to £11,525k (UDC share £4,610k). On the basis of the work we have completed we are satisfied that the amended business rates appeals provision has been calculated on a reasonable basis in line with the requirements of IAS 37 and is materially accurate
<p>2. As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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.</p> <p>For district council's the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; We reviewed accounting estimates for evidence of management bias; We evaluated the business rationale for any significant unusual transactions; and We reviewed capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised. 	<ul style="list-style-type: none"> We did not identify any material instances of fraud or error.

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain in progress at the date of drafting this report (18 September). We will provide an update of progress at the Performance and Audit Committee meeting:
 - ▶ Whole of government accounts
 - ▶ Receipt of a Letter of Representation
 - ▶ Director final review of audit work and financial statements
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ Our audit identified a small number of errors which management have chosen not to adjust. Further details are provided in Appendix 1

Corrected misstatements

Management have corrected a number of disclosure errors within the notes to the accounts. None of these adjustments have impacted on the Councils reported financial performance. Further details of these amendments are provided in Appendix 2.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest,

We have no additional matters we wish to report.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

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

We have performed a substantive audit approach this year, and have therefore not tested the controls of the Council. We are not expressing an opinion on the overall effectiveness of internal control.

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

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

We have not identified any significant 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.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which we do not currently have sufficient audit evidence. There were no additional specific representations required other than the standard representations.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

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

Arrangements to secure economy, efficiency and effectiveness

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

Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have completed our work and plan to issue an unqualified value for money conclusion in relation to the Council's financial resilience. We do have some issues to report to those charged with Governance, as set out on the next page of this report.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have no issues to report in relation to this criteria

Arrangements to secure economy, efficiency and effectiveness (continued)

Financial resilience

Along with many other Council's, Uttlesford is facing significant financial challenges over the next four years.

The Council's external funding sources are reducing and are subject to change and uncertainty in future years. Some of the main areas of uncertainty relate to:

- ▶ Future levels of business rates income
- ▶ Future funding through the New Homes Bonus
- ▶ Level of Government funding through the Revenue Support Grant (RSG) and Baseline Funding (business rates)

The Council is clearly aware of the challenges it faces and is developing plans to identify and deliver further savings.

The Council has a strong track record of delivering savings and meeting it's budget, with a reported General Fund underspend of £0.47 million in 2013-14. Good progress has already been made on identifying savings to bridge the budget gaps in future years.

Although the Council is currently in a sound financial position, Members need to be aware of the future financial pressures the Council is facing. In particular, they need to consider carefully the impact of any decisions regarding council tax levels or use reserves to support the Council's finances, on the ongoing sustainability of the Council's financial position and its ability to maintain service levels in future years.

The Council's financial forecasts that have been reported to Members make clear the challenge being faced. Some of the key issues reported include:

- ▶ The Council has identified annual budget gaps of around £0.4 million to £0.6 million over the next 4 years (to 2017-18). However this is based on a number of assumptions, which if changed could result in significant increases to these figures.
- ▶ The Council has included New Homes Bonus funding of between £1.9 million and £2.6 million per year, to support the base budget in each of the next 4 years. Although officers recognise the risk regarding levels of future New Homes Bonus, this funding stream has not been confirmed beyond 2016-17. If this source of funding was removed, or significantly reduced from 2017-18, the Council would have an additional base budget gap of just over £2 million to address from 2017-18.
- ▶ The Council has good levels of reserves and General Fund reserves (including earmarked reserves) are estimated to stay at between £6.5 million and £7 million over the next four years. The current financial projections include limited draw on reserves.
- ▶ In recent years, the Council has frozen or reduced its council tax and has received an annual council tax freeze grant as a result. Decisions relating to council tax increases, or decreases, have an ongoing impact on the Council's ability to raise revenue in future years due to the annual restrictions on the level of annual increases

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 11 March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Performance and Audit Committee on 25 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 11 March 2014.

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
Total audit fee – Code work	£69,654*	£69,654	See comments below
Certification of claims and returns	£21,200	£21,200	No change proposed, however claims work is only at an early stage.
Non-audit work	0	0	No non-audit work has taken place in 2013/14.

* An additional fee may be required in relation to the extra work on the revaluation reserve and CAA adjustment. We will discuss this with management once the audit is complete.

- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix 1 - Unadjusted audit errors

- The following adjustments, which are greater than £51,050 have been identified during the course of our audit.
- These adjustments have not been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Impact on Financial Statements
PPE/ RR	Testing of revaluation as per the Fixed Asset register to the Valuers report identified an error of £612k where sold properties had not been removed from the HRA beacon groups.	Factual	The Value of HRA properties in the balance sheet are overstated by £612k. The impact on the Council's balance sheet is not material.
IAS19 Pensions	A late adjustment by the Council's Actuary to the value of the assets in the pension fund has resulted in a £250k increase in assets.	Factual	The draft accounts were prepared on the basis of the actuaries original report. The impact on the Council's Statements is not material.
Collection Fund / Creditors	There is a balance of £145k included in Council Tax payers account and £60k in the NDR payers account. These are historic balances carried forward from previous year. The Council are still investigating how these balances should be treated.	Factual	Collection Fund creditors are overstated by £205k. The impact on the Councils Statements is not material.
Cash Flow Statement	The Council have used the CIPFA Cash Flow Model to produce the Cash Flow statement. All Figures have been agreed to the balance sheet but there remains an unresolved imbalance of £112k	Factual	The cash flow statement includes an unresolved balancing item of £112k.
Cumulative effect of misstatements			<i>Not material</i>

Appendix 2 - Adjusted audit errors

- The following adjustments, which are greater than £51,050 have been identified during the course of our audit.
- These adjustments have not been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Impact on Financial Statements
NDR Appeals Provision	Our audit work identified a number of issues with the estimation of the NDR appeals provision. We found; a number of appeals that had been settled at a lower RV than originally provided for, and a number of high risk property categories that had not been provided for. In addition no provision had been made for appeals not yet received	Judgemental	<p>The NDR Appeals provision has increased from £6,810k (UDC share £2,724k) to £11,525k (UDC share £4,610). This adjustment impacts on the:</p> <ul style="list-style-type: none"> • Collection Fund increasing the Collection Fund deficit to £11,060k • Council's balance sheet; <ul style="list-style-type: none"> ▪ Debtors increase £4,715k (Note 9.2/3) ▪ Creditors Increase (£2,829k) (Note 10.1) ▪ Provisions increase (£1,886k) (Note 10.2) ▪ Earmarked Reserves increase £1,886k (Note 2.1) ▪ Collection Fund Adjustment Account (£1,886k) (Note 3.6) • Movement on Reserves Table amended to reflect the above • Note 1 (Adjusting between accounting and funding basis under Regulations)
Cumulative effect			nil

Appendix 2 - Adjusted audit errors

- The following adjustments, which are greater than £51,050 have been identified during the course of our audit.
- These adjustments have not been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Impact on Financial Statements
Unusable Reserves (CAA/RR)	A number of amendments were required to address the requirements of the Code regarding capital accounting. The key item was the correction of incorrect adjustments between the CAA and the RR reserves in 2012/13. This has been corrected as a prior period amendment.	Factual	Resulting in a revised RR opening balance of £45,549k (increase) and CAA balance of £117,735 (decrease). The total movement between these two unusable reserves is £39,242k.
Unusable Reserves (CAA/RR)	A number of errors and miscalculations were identified within the calculation of the year end revaluation reserve.	Factual	In year movement between the RR and the CAA of £2,873k (decreasing the RR and increasing the CAA)
CIES	Misclassification of service expenditure	Factual	Movement of net expenditure £156k from Other Housing Services to Adult Social Care
Cumulative effect			nil

Appendix 3 - Adjusted disclosure errors

The following disclosure errors have been made by management within the revised financial statements.

Item of Account	Amendment
Cash flow statement	A number of amendments were made to the cashflow statement to bring it in line with the CIES and balance sheet movements
Movement on reserves	A number of adjustments were made to reflect the increase in the NDR Appeals provision.
Note 3.1 Revaluation reserve & note 3.2 capital adjustment account	A number of adjustments have been made to the to both the Revaluation Reserve and the CAA to bring them in line with other statements. The figures for 2012/13 have been restated to correct the prior year figures. The movements are with unusable reserves and do not impact on usable reserves or the balance sheet position
Financial Instruments	A number of amendments were made to bring the Note into line with the balance sheet and ensure compliance with the Code of Practice on Local Authority Accounting
Presentation	A small number of presentational amendments were made to ensure compliance with the Code of Practice on Local Authority Accounting

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

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

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

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

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

