

Uttlesford District Council

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



Building a better
working world

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Section 1

Executive summary

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 – the Audit Committee – 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 2014/15 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 at 15 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well.

Value for money

- ▶ We have completed our work and 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 report to the National Audit Office (NAO) regarding the Whole of Government Accounts that the Council is below the specified audit threshold of £350 million.

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.

Section 2

Extent and purpose of our work

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 2014/15 financial statements and the consistency of other information published with them
 - ▶ Report on an exception basis on the Annual Governance Statement
 - ▶ 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)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

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

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council. The extent of our review and the nature of our report are specified by the NAO. As the Council is below the specified audit threshold of £350 million, there is no requirement for detailed work other than to submit the assurance statement to the NAO (WGA audit team) confirming the Council is below the threshold.

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.

Section 3

Addressing audit risks

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.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>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.</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.</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 significant unusual transactions; and • We reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised 	<ul style="list-style-type: none"> ▶ We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing of journals and estimates. ▶ Our testing to identify any expenditure which had been inappropriately capitalised did identify expenditure (although not material) which should have been more appropriately disclosed as revenue (housing repairs). The coding of work between capital and revenue is an area that needs continued focus and robust review

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and findings

Progress of our audit

- ▶ The following areas of our work programme remain to be completed as at 15 September We expect to have completed these by the date of the Audit Committee meeting and will provide an update at the meeting:
 - ▶ Receipt of a signed Letter of Representation
 - ▶ Completion of Manager and Director review procedures
- ▶ 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 B

Corrected misstatements

- ▶ During the course of our audit we identified a number of amendments that were needed to the accounts, including providing more detail on changes to the presentation of 2013/14 figures. These have been corrected during the course of our work and further details are provided at Appendix A.

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 Authority'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;
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest

We have no matters we wish to report.

Financial statements audit – application of materiality

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	
Planning materiality and tolerable error	<p>We determined planning materiality to be £1.059 million (2014: £1.021 million), which is 2% of gross expenditure reported in the accounts of £52.99 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> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p>
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £52950 (2014: £51050)

Financial statements audit – application of materiality (cont.)

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:

Area	Strategy applied
Remuneration disclosures, including severance payments, exit packages and termination benefits	<p>Our audit strategy was to check the bandings reported in note 15.3/5 of the financial statements, test the completeness of the disclosure and make sure that the disclosure was compliant with the Code.</p> <p>We sample checked transactions back to the payroll system and supporting documentation.</p>
Related party transactions	<p>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 was compliant with the Code.</p> <p>We carried out a sample check of Companies House searches to check completeness of declarations.</p>
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.
Exit packages	Our audit strategy will be to check the disclosure and that it is in line with the Code. Also a 100% check back to payroll and supporting documentation

Financial statements audit – internal control, written representations and 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 not tested the controls of the Council as we have adopted a fully substantive approach to our audit, as we have assessed this as the most efficient approach. We are therefore 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.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any specific 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.
- ▶ As the Council is below the specified audit threshold of £350 million, there is no requirement for detailed work other than to submit the assurance statement to the NAO (WGA audit team) confirming the Council is below the threshold. We have concluded our work in this area and there are no matters to report.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Uttlesford District 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 Authority 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'
- ▶ Since issuing our Audit Plan in March 2015, we have identified a significant risk in relation to this criteria. The significant risk is in relation to the level of reliance placed on funding from the New Homes Bonus (NHB) in the Council's medium term financial strategy (MTFS). This has also been identified as a risk in a number of other councils which receive significant levels of funding through the NHB, where this has been built into the base budget. This is clearly recognised as a risk in the Council's own MTFS.
- ▶ To address the specific risk identified we have undertaken a more detailed review of the Council's MTFS and the key assumptions within this, including the use of NHB. We have also looked at the level and planned use of reserves and the Council's track record in delivering previous budgets and savings plans. Our key findings in relation to these areas are set out on the next page of this report.
- ▶ As a result of our work, we have concluded that the Council has continued to respond well to the financial challenges it, along with other public sector bodies, is facing.
- ▶ We have therefore concluded that the Council has adequate arrangements in place for securing financial resilience.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority 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 completed our work and have no issues to report.
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Arrangements for securing financial resilience

As noted in our conclusion, the Council has continued to respond well to the financial challenges it is facing. The size of that challenge is however increasing and there are a number of uncertainties that could have a significant impact on the Council's future financial stability. We have set out below further details on how the Council has responded to the challenges it is facing along with our understanding of the current financial position.

Current budget gap

- ▶ In its MTFS issued in February 2015, the Council has reported planned surpluses totalling £3.3 million over the three years from 2015/16 to 2017/18. This is a positive position compared to many other councils who are reporting some significant budget gaps. However, these surpluses are based on the assumption that the Council will continue to receive significant levels of funding via the New Homes Bonus (NHB) and that this funding will continue to be used to support ongoing revenue service spend rather than one off items.

MTFS and key assumptions

- ▶ Within the MTFS the Council emphasised the uncertainty of government funding and especially the Council's reliance on NHB. The MTFS makes clear that in the future NHB could be reformed or potentially scrapped and models the impact of reductions in NHB of between 10% and 30%. The level of NHB assumed over the next three years of the MTFS is £12.4 million, with total growth over the period of the MTFS from £3.6 million in 2015/16 to £6.3 million in 2020/21. Any reductions in the level of NHB funding would therefore have a significant impact on the Council's financial position.
- ▶ Officers are clear that any resulting budget shortfalls would have to be met from service savings in the long term, although the Council does have reserves which could be used to meet budget gaps in the short term. The Council has continued to take steps to identify savings and income generation opportunities to address this risk.

- ▶ The Council has been prudent in its assumptions in relation to areas such as general inflation, pay awards and pensions increase. Council tax freeze grant has not been included in future years. The MTFS assumes that income from fees and charges would increase at 2% per annum, and growth assumptions have also been included in relation to business rates retention (assumed funding of £1.8m per annum).
- ▶ The Council clearly recognises the risks in relation to the uncertainty of future Government funding and in particular the NHB, and has modelled the impact of reductions in this funding as noted above.

Reserves and balances

- ▶ At the end of 2015, the level of General Fund balances was £11.4 million. Of this £4 million is ring fenced, and a further £5.5 million is allocated for future year costs or against specific services. This leaves £0.7 million uncommitted or unallocated. This is in addition to the working balance of £1.2 million, which is in line with the minimum level recommended by the Director of Finance and Corporate Services.

Track record in delivering previous budgets and savings

- ▶ The Council has a strong track record of delivering its budget and planned savings.
- ▶ In 2009, five work streams were established and from 2010 a small corporate team was set up to secure the savings needed by the MTFS. The work streams have been successful to date, with cumulative annual savings of around £2.7 million delivered by the end of 2014/15.
- ▶ The MTFS recognises that there is more to do. Because of the inherent volatility in the MTFS and the need for a number of key assumptions in projections, in particular the risks highlighted for the post 2016/17 period, the Council must continue efforts to identify potential savings in order to ensure it is well placed to meet future challenges.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan 4 March 2014
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code 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 Audit Committee on 24 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan.

Audit fees

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

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	TBC	70,554	To be agreed
Certification of claims and returns	TBC	21,040	Work due to be completed in November
Non-Audit work	0	0	

- ▶ We have incurred additional audit time in reviewing changes made to the presentation of previously audited comparator figures for 2013/14 within the 2014/15 accounts.
- ▶ We will agree, in discussion with the Director of Finance, the level of addition fee required for this work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

Appendices

Appendix A – corrected disclosure audit misstatements

- ▶ The following corrected disclosure misstatements, have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Item of account	Amendment
CIES	Amended for £562k that was Incorrectly netted from both income and expenditure in the HRA line of the CIES and £162k that was similarly incorrectly netted from both income and expenditure for other housing services . As a result of these errors, both income and expenditure were understated, with no overall impact on the financial position. These figures have been adjusted which brings income and expenditure in the CIES in line with the segmental reporting note.
Changes in the presentation of prior year figures	The draft accounts presented for audit included a number of changes to prior year comparator figures from the figures reported in the previous year's audited accounts. Under accounting standards, changes should only be made to previous year comparator figures where there have been changes to accounting policies or there is a correction of prior year errors, and the effect is material. None of the changes made were material and we have therefore requested that either the comparators are amended to agree to last years audited accounts or where the change is merely presentational, additional notes and disclosures are added to make the changes in presentation clear to the reader of the accounts.
Other	A small number of minor presentational issues were identified during the course of our audit. These have all been amended by the client.

Appendix B – uncorrected disclosure audit misstatements

- ▶ The following uncorrected disclosure misstatements, have been identified during the course of our audit and warrant communicating to you.

Item of account	Amendment
Cash	Cash in transit is understated by £61.4k this is due to an historical error. Officers are currently investigating and will correct the figures during 2015/16.
Cashflow	The Council have used the CIPFA Cash Flow Model to produce the Cash Flow statement. All figures have been agreed to other areas of the financial statements, but there remains an unresolved balancing item of £124k.

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ED None

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

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