

# Uttlesford District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP







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Members  
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1 October 2015

Dear Members

## **Annual Audit Letter 2014-15**

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014-15 annual results report presented to the 24 September 2015 Audit and Performance Committee, representing those charged with governance. We do not repeat those findings here.

The matters reported here are those we consider most significant for Uttlesford District Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Debbie Hanson  
Director  
For and on behalf of Ernst & Young LLP  
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014-15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 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.

## 1. Executive summary

Our 2014-15 audit work was undertaken in accordance with our Audit Plan issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

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

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Uttlesford District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 25 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

***As a result of the above we have also:***

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Issued a report to those charged with governance of the Council communicating the significant findings from our audit.

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Our Audit Results Report was presented to the Audit and Performance committee on 24 September 2015.

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Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

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We issued our certificate on 25 September 2015.

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In December 2015, we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

## 2. Key findings

### 2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council 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 Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 25 September 2015.

Our detailed findings were reported to the 24 September Performance and Audit Committee.

In our view, the quality of the process for producing the accounts, including the supporting working papers was generally good.

We identified a small numbers of amendments the majority of which were amended in the audited accounts. There were no items that were material individually or in total to the accounts.

The main issues identified as part of our audit were:

#### **Significant risk 1: Risk of management override**

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.

For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

We designed and performed appropriate audit procedures to obtain reasonable assurance that the financial statements as a whole are free of material misstatement.

#### **Findings:**

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- ▶ 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.
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We have no other matters to report.

### 2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and

- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 25 September 2015.

We noted the following as part of our audit:

#### **Arrangements to secure financial resilience: significant risk**

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We identified a significant risk in relation to the Council's arrangements to secure financial resilience, 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).

To address this risk, we undertook a more detailed review of the Council's MTFS and the key assumptions within this, including those related to the use of NHB. We also looked at the level and planned use of reserves and the Council's track record in delivering previous budgets and savings plans.

#### **Findings:**

The Council has a strong track record of delivering its budget and planned savings and the MTFS issued in February 2015, projects planned surpluses totalling £3.3 million over the three years from 2015-16 to 2017-18. However, these surpluses are based on the assumption that the Council will continue to receive significant levels of NHB funding and that this funding will continue to be used to support ongoing revenue service spend rather than one off items. From our review of the MTFS and discussion with officers, we concluded that 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.

From 2010, a small corporate team was set up to secure the savings needed by the MTFS. The work streams managed by this team have been successful to date, with cumulative annual savings of around £2.7 million delivered by the end of 2014-15.

The Council holds adequate levels of general fund reserves. At the end of 2015, the level of general fund balances was £10.2 million. Of this £5 million is ring fenced, and a further £5.5 million is allocated for future year costs or against specific services. This leaves £2.0 million uncommitted or unallocated which can be used to meet unexpected costs or pressures or to support items of one off spend. 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.

The MTFS recognises that there is more to do to meet the future financial challenges. There is inherent volatility in the MTFS which necessarily includes a number of key assumptions and projections, in particular in relation to the risks highlighted for the post 2016-17 period. The Council must therefore continue with its efforts to identify potential savings to ensure it is well placed to meet future challenges.

On the basis of our work we have undertaken we have concluded that the Council's arrangements to secure financial resilience are adequate.

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## **2.3 Whole of Government Accounts**

We performed the procedures required by the National Audit Office. The Council is below the specified audit threshold of £350 million and therefore we were not required to audit the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

## **2.4 Annual Governance Statement**

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.



## 2.5 Objections received

We did not receive any objections to the 2014-15 financial statements from members of the public.

## 2.6 Other powers and duties

We did not identify any issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

## 2.7 Independence

We communicated our assessment of independence to the Audit and Performance committee on 24 September. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements

## 2.8 Certification of grant claims and returns

We have not yet completed our work on the certification of the claims and returns. We will issue our Annual Certification report for 2014-15 in December 2015.

### 3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. We have not tested the individual system controls of the Council as we have adopted a fully substantive approach to our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design of an internal control that might result in a material misstatement in the Council's financial statements.

## 4 Looking ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Council's arrangements for the production of its financial statements. We have outlined what we think are two of the main challenges below.

Description	Impact
<p><b>Highways Network Asset (formerly Transport Infrastructure Assets):</b></p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016-17 sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost. This is a change from the existing requirement to account for these assets under Depreciated Historic Cost. This change is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have assets which fall into the definition. This could include, for example, footways and cycle ways, housing revenue accounts (HRA) infrastructure, unadopted roads on industrial or HRA estates, and street furniture.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p>	<p>The Council should consider whether it holds any assets that would be classified as highways network assets and, if so, whether they have the necessary information to implement the changes in accounting for these assets from 1 April 2016.</p> <p>If the impact of this change in accounting policy is material, the Council would also need to restate the balances for these assets as at 1 April 2015.</p>
<p><b>Earlier deadline for production and audit of the financial statements from 2017-18</b></p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year end closure processes.</p>

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