

# Uttlesford District Council

Annual Audit Letter for the year ended 31 March 2016

18 October 2016

Ernst & Young LLP



## Contents

|                                 |    |
|---------------------------------|----|
| Executive Summary .....         | 2  |
| Purpose.....                    | 5  |
| Financial Statement Audit ..... | 8  |
| Value for Money .....           | 11 |
| Other Reporting Issues.....     | 13 |
| Focused on your future.....     | 16 |
| Appendix A    Audit Fees .....  | 18 |

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.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 from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

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

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Uttlesford District Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

| Area of Work  | Conclusion   |
|---|--|
| Opinion on the Council's:<br>▶ Financial statements   | Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended. |
| ▶ Consistency of other information published with the financial statements                  | Other information published with the financial statements was consistent with the Annual Accounts.   |
| Concluding on the Council's arrangements for securing economy, efficiency and effectiveness | We concluded that you have put in place proper arrangements to secure value for money in your use of resources.  |

| Area of Work  | Conclusion   |
|---|--|
| Reports by exception:<br>▶ Consistency of Governance Statement  | The Governance Statement was consistent with our understanding of the Council. |
| ▶ Public interest report  | We had no matters to report in the public interest.                            |
| ▶ Written recommendations to the Council, which should be copied to the Secretary of State                  | We had no matters to report.   |
| ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 | We had no matters to report.   |

| Area of Work   | Conclusion  |
|--|---|
| Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA). | The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack. |

As a result of the above we have also:

| Area of Work  | Conclusion   |
|---|--|
| Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.  | Our Audit Results Report was issued on 21 July 2016. |
| 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 28 July 2016.          |

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Mark Hodgson  
Executive Director  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 28 July 2016 Performance and Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities

### Responsibilities 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.

## Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued to the Performance and audit Committee on 11 February 2016 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 2015/16 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.



A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 July 2016.

Our detailed findings were reported to the 28 July 2016 Performance and Audit Committee.

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

| Significant Risk  | Conclusion  |
|---|---|
| <p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> | <p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed accounting estimates for evidence of management bias; and we evaluated the business rationale for any significant unusual transactions.</p> <p>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 did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p> |

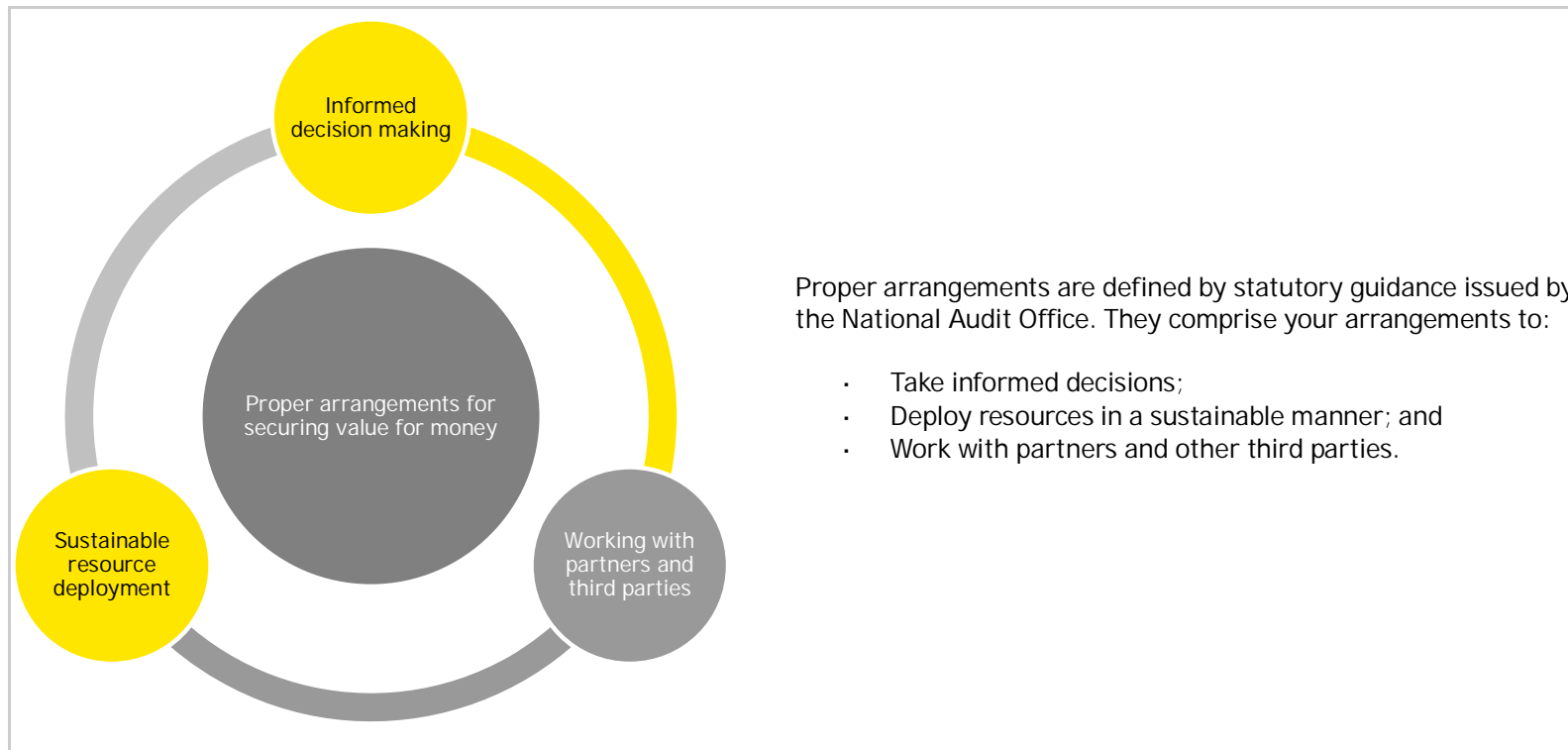
| Significant Risk   | Conclusion   |
|--|--|
| <p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p> | <p>We have tested revenue recognition and cut off as part of income and expenditure testing and have not identified any issues with the classification or recognition of expenditure.</p> <p>Our testing did identify expenditure which had been inappropriately capitalised. This expenditure did not meet the relevant accounting requirements to be capitalised, and should have been disclosed as revenue (housing repairs). However, the level of misstatement was not material (£0.16 million).</p> <p>The coding of work between capital and revenue is still an area that needs continued focus and robust review.</p> |
| Other Risks  | Conclusion   |
| <p><b>Provision for Business Rates Appeals</b></p> <p>In 2013/14 the Council was required to calculate a provision for business rate appeals for the first time. We found that the council had developed an appropriate methodology for the estimate once they had included the need for consideration of future appeals not yet lodged.</p> <p>This methodology needed to be reassessed to ensure that the assumptions made remain appropriate to prepare a reliable estimate.</p>  | <p>We reviewed the Council’s provision for business rate appeals to ensure that it had been calculated on a reasonable basis in line with the required accounting standard (IAS 37) and that the assumptions underlying the estimate are reasonable and are supported by appropriate evidence.</p> <p>In addition, we also carried out testing to gain assurance that the list of properties provided for was complete.</p> <p>We have no matters to report.</p>   |
| <p><b>Property Asset Valuations</b></p> <p>Due to the complexity in accounting for property, plant and equipment, the cyclical approach to valuations, and the material values involved, there is a higher risk that asset valuations contain material misstatements.</p>  | <p>We have gained sufficient assurance over the property, plant and equipment valuations and disclosures.</p> <p>Aside from the issue mentioned above regarding the inappropriate capitalisation of revenue expenditure, we have no other matters to report.</p>   |

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

Value for Money

## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.



We issued an unqualified value for money conclusion on 28 July 2016.

Our audit planning did not identify any significant risks in relation to these criteria, and the completion of our audit did not identify any significant matters in relation to the Council's arrangements.



Other Reporting  
Issues

## Other Reporting Issues

### 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.

### 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.

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

### 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 2015/16 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 Audit Committee on 28 July 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We have not identified any issues with testing of payroll controls.

We have adopted a fully substantive approach for other key processes and have therefore not tested the operation of controls.



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

Focused on your  
future

## Focused on your future

| Area                          | Issue  | Impact   |
|-------------------------------|--|--|
| EU referendum                 | <p>Following the majority vote to end the UK’s membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&amp;P, Fitch and Moody’s) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p> | <p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p> |
| Special purpose Vehicle (SPV) | <p>At the Cabinet meeting in December 2015, it was agreed in principle to establish a Special Purpose Vehicle (SPV). This would be a wholly owned subsidiary of the Council to develop a range of commercial opportunities. In May 2016 the Cabinet was asked to approve the establishment of a holding company and three subsidiaries:</p> <ul style="list-style-type: none"> <li>• Aspire Holdings (UDC) Ltd</li> <li>• Aspire Rentals Ltd</li> <li>• Aspire Land Agreements Ltd</li> <li>• Aspire Property Services Ltd.</li> </ul>   | <p>The setting up of a Council owned company requires the Council to consider legal powers, contracting arrangements, governance structures, risk management, financial modelling, accounting and tax implications.</p> <p>We will continue to work with the Director of Finance and Corporate Services to assess the implications for the audit and the necessary accounting requirements.</p>  |

Appendix A

## Audit Fees



## Appendix A Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our 2015/16 annual fee letter.

| Description  | Final Fee 2015/16<br>£'s | Planned Fee 2015/16<br>£'s | Scale Fee 2015/16<br>£'s |
|--|--------------------------|----------------------------|--------------------------|
| Total Audit Fee – Code work                              | 52,916                   | 52,916                     | 52,916                   |
| Total Audit Fee – Certification of<br>claims and returns | Note 1                   | 22,808                     | 22,808                   |

Note 1 - Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA. Our actual fee will be determined on completion of the Housing Benefit subsidy claim, due by 30 November 2016.

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

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ED None

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

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