Uttlesford District Council

Annual Audit Letter for the year ended 31 March 2017

September 2017

Ernst & Young LLP

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Contents

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.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 (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.

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 2017.

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

Area of Work	Conclusion
Opinion on the Council's: ▸ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended. The Council published its draft financial statements by the 31 May 2017, and we issued our audit opinion before the 31 July 2017, thereby achieving the 2017/18 fast close deadline a year early.
▸ 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:	
▸ 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 27 July 2017.
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 27 July 2017.

In November 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 and congratulate them for achieving the 'fast close' deadline a year ahead of schedule.

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


Purpose
Work

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 2016/17 Audit Results Report to the Governance, Audit and Performance Committee, representing those charged with governance, on the 27 July 2017.

We do not repeat those detailed findings in this letter.

The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 9 February 2017 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 2016/17 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 you 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.

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.

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 27 July 2017.

Our detailed findings were reported to the Governance, Audit and Performance Committee on the 27 July 2017.

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

Significant Risk	Conclusion
Management override of controls 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. 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.	▸ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; ▸ We reviewed accounting estimates for evidence of management bias with particular emphasis on Property, Plant and Equipment and accruals; and ▸ We evaluated the business rationale for any significant unusual transactions. 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.

Revenue and expenditure recognition	
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. 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.	▸ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements; ▸ We reviewed accounting estimates for evidence of management bias and ▸ Review and test revenue and expenditure recognition policies; ▸ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias; ▸ Develop a testing strategy to test material revenue and expenditure streams; ▸ Review and test revenue cut-off at the period end date; and ▸ Tested the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure. Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition. Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position. Our testing did not identify any expenditure which had been inappropriately capitalised.

Other Financial Statement Risks	Conclusion
Non-current Assets Property, Plant and Equipment represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet. The Council engages an external expert valuer who applies a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment. As the Council'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 or the associated accounting entries incorrectly posted. 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. This risk relates to assets that are revalued, being Dwellings, 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets Heritage and community assets are held at historic cost.	Our approach has focused on: • Consideration of the work performed by the Council's valuer, Wilks, Head & Eve, including the adequacy of the scope of the work performed, professional capabilities and the results of their work; • Consideration of the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Consideration of external evidence of assets values via reference to the specific Local Government Gerald Eve report contracted by the NAO for auditor use. Specifically we have considered if this indicates any material variances to the asset valuations performed by Wilks, Head and Eve; • Considered changes to useful economic lives as a result of the most recent valuation; • Considered whether asset categories held at cost have been assessed for impairment and are materially correct; and • Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments. With the exception of a £0.133 million understatement of noncurrent assets, which management chose not to adjust the financial statements for, we have not identified any material issues in the valuation of assets within the Council's accounts.

Pension Liabilities – IAS19 The Local Authority Accounting Code of Practice and International Accounting Standard 19 (IAS19) requires the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body (Essex County Council). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. International Standards of Auditing (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.	Our approach has focused on: • Liaising with the audit engagement team of the Essex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Uttlesford District Council; • Assessing the conclusions drawn on the work and assumptions used by Barnett Waddingham (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, PwC; and • Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. We have not identified any issues. 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 Note 17 to the financial statements.
Assessment of the Group Boundary The Council set up a new company (Aspire Holdings (UDC) Limited during 2016/17. The company is an incorporated company wholly owned by Uttlesford District Council. At the time of planning the audit there was an assumption that we would be required to assess the nature of this arrangement and the extent of transactions within the year to determine whether the company should be consolidated into the Council's financial statements.	We concluded that Aspire Holdings (UDC) Ltd falls within the Council's group boundary. As a result of delays within the purchase of the investment property no transactions occurred within the year of account. Therefore, on the grounds of materiality (both qualitative and quantitative) consolidation is not required within the 2016/17 financial statements and therefore the preparation of group accounts was not required.

Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates and reflects the Council's internal financial reporting structure. This change in the Code has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives has required audit review which was performed in April 2017.	Our audit approach has focused on: • Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code; • Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and • Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers. Our audit identified that the Comprehensive Income & Expenditure Statement incorrectly included internal recharges. These have now been netted out. This had the impact of reducing both income and Expenditure by £21.294 million. There was no impact on the bottom line. We also proposed some disclosure amendments that management have agreed to make in the financial statements. In particular it should be noted that the Expenditure and Funding Analysis (EFA), although positioned amongst them, is not a Primary Statement (consistent with the Code Guidance notes).

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.

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 £0.946 million (2016: £1.06 million), which is 2% of Gross Expenditure as reported in the accounts We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Governance, Audit and Performance Committee that we would report to the Committee all audit differences in excess of £47,000 (2016: £53,000)

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures – reduced materiality level of £5,000 applied in line with bandings disclosed; and
- Related party transactions, members' allowances and exit packages - reduced materiality level applied equal to the reporting threshold.

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

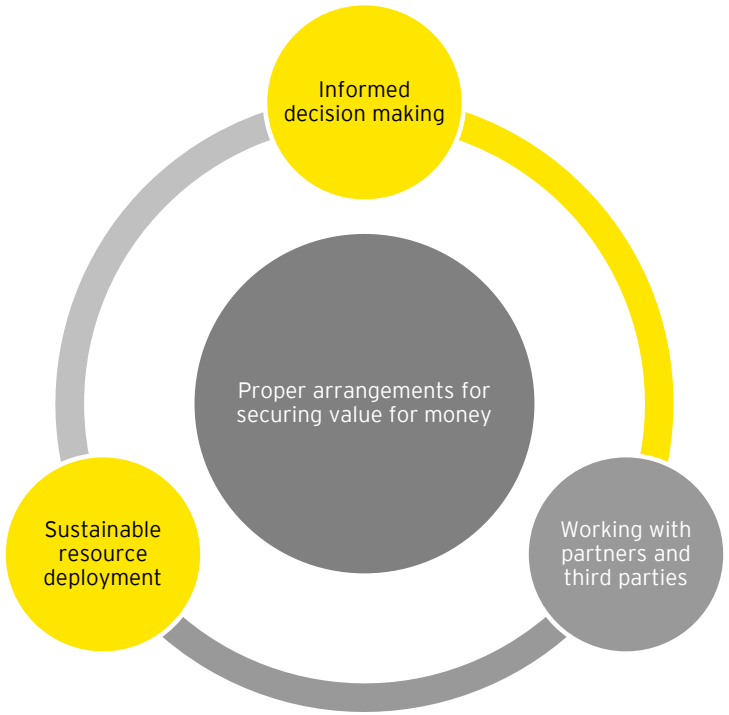
Value for Money

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 identified one significant risk in relation to these arrangements. The tables below present the findings of our work in response to the risks identified. We have performed the procedures outlined in our audit plan.

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.

We therefore issued an unqualified value for money conclusion on 27 July 2017

Significant Risk	Conclusion
Deploying resources in a sustainable manner The Council have approved the establishment of a holding company and three subsidiaries, for rental, land agreements and property services. The Council are currently negotiating the significant purchase of investment property.	We have undertaken the procedures as set out in our audit strategy which have focused on: • The Council's business case for these transactions; • The Council's governance arrangements around current transactions; and • The impact of reduced reserves and increased borrowing on the Council's medium term financial position (MTFP). The Council's business case was based on the 2016/17 TFP which predicted that a surplus on the provision of services in 2017/18 would turn into a deficit in 2018/19 of £0.771 million and without action the deficit will grow to over £1.0 million per annum by 2021/22. To avoid this scenario the Council had to consider either cuts services or to increase income. On the 15 May 2017, the Council's wholly owned subsidiary company - Aspire (CRP) Ltd, purchased a 50% share in the Chesterford Research Park in a joint venture with Aviva Ltd. The net return is currently £2.55 million per annum, a predicted yield of 5.67%. The Council has borrowed money, in order to fund the investment through Aspire (CRP) Ltd. The Council have taken appropriate advice at all stages. A loan agreement and Articles of Association are in place between the Council and the subsidiary. Due diligence reviews has been carried out at every stage, using a number of independent experts, in order to mitigate the risk associated with such a transaction. Our review of the Council's business case for these transactions, the governance arrangements put in place and the impact of the transaction (primarily borrowing costs) on the Council's MTFP has not identified any significant matters.

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.

We therefore issued an unqualified value for money conclusion on 27 July 2017.

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 reviewed the Annual Governance Statement. We identified that a disclosure was required to reflect the setting up of Aspire CRP Ltd and the acquisition of 50% of Chesterford Park under a joint agreement. The Council amended the annual governance statement to include these areas.

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 2016/17 financial statements from any 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 Governance, Audit and Performance Committee on the 27 July 2017. 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 audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control might result in a material misstatement in the financial statements.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future

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Area	Issue	Impact
Earlier deadline for production and audit of the financial statements from 2017/18	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Council has reviewed and amended the closedown process over the last two years to achieve draft accounts production by 31 May for 2016/17. We issued our audit report by the 31 July 2017. The Council is well placed to meet the revised earlier deadline having done so in each of the last two years. However, the potential introduction of group accounts in 2017/18 increases the complexity of the closedown process and the Council needs to ensure that it reviews its timetable and builds in sufficient capacity and skills to address this issue.

Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 27 July 2017 Audit Results Report.

Description	Final Fee 2016/17 £'s	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee – Code Work	52,916	52,916	52,916	43,263
Certification of Claims and Returns - Note 1	TBC	19,427	22,808	11,022
Non Audit work - Note 2	7,150	-	-	
Non Audit work- Grant certification – Note 3	TBC	-	1,000	

Note 1: We have not commenced our work on the Housing Benefit grant certification. We will report the outturn fee within our Certification report.

Note 2: We supported the Council by reviewing the Council's approach to implementing the new IR35 rules for the public sector.

Note 3: This work relates to the agreed upon procedures certification arrangements for the Capital Receipts grant return.

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ED None

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