

East Cambridgeshire District Council Audit results report

Year ended 31 March 2019

21 January 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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21 January 2020



Dear Finance and Asset Committee Members

We are pleased to attach our Final Audit Results Report in advance of the forthcoming meeting of the Finance and Assets Committee (the Committee). This updates the Initial Report we presented to the 28 November Committee meeting. We have now completed the audit of East Cambridgeshire District Council for 2018/19.

Subject to concluding the final procedures listed in our report, we will be issuing an unqualified audit opinion on the financial statements in the form at Section 3 after the Committee meeting. Whilst we have no matters to include in the auditor's report on your arrangements to secure economy, efficiency and effectiveness in your use of resources, we have identified some areas for improvement and have included some recommendations.

This report is intended solely for the use of the Finance and Assets Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their prolonged help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Finance and Assets Committee meeting on 6 February 2020.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel', written in a cursive style.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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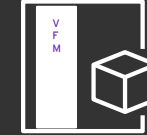
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities 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 April 2018)' 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 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.



01 Executive Summary

Executive Summary

Scope update

In the Outline Audit Plan that we presented at the January 2019 Resources and Finance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We have carried out our audit in accordance with this plan but have made a small change to materiality using the draft financial statements. Overall materiality is now £0.842 million (Audit Plan – £0.885 million), which results in updated performance materiality, at 50% of overall materiality, of £0.421 million. The updated threshold for reporting misstatements is £0.042 million.

Status of the audit

In July we reported to the Finance and Assets Committee that due to our resourcing issues we needed to reschedule the audit of the Council's accounts until after the end of July. We subsequently agreed with the Finance Manager an October start date with the aim of reporting a completed position to the 28 November Committee meeting. We then reported at 21 November that our audit was in progress and we anticipated completing procedures by the middle of December. We have now completed those procedures.

Subject to satisfactory completion of the final audit procedures listed below we will issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3:

- Review of the revised set of statements that management has prepared taking into account the audit differences we have identified.
- Completing a subsequent events review;
- Requesting and then reviewing the management representation letter; and
- Completing our final sign off procedures.

Value for money conclusion

At 21 November we reported that we had completed our planned work in response to the significant risk we had communicated in the Audit Plan but were completing our final reporting. In addition, we communicated to the Committee that we had received correspondence raising concerns as to the risk and governance of East Cambridgeshire Trading Company (ECTC) and its relationship with the Council. We treated the correspondence as information received during the course of the audit and in particular relevant to our consideration of our value for money conclusion responsibilities. We have now completed our consideration of the matters raised and include our findings and conclusions in Section 5. Overall, we did not identify any matters which we need to include in our auditor's report at Section 3. We have however identified five improvement areas which management have agreed to follow up.



Executive Summary

Audit differences

There are no unadjusted audit differences arising from our audit.

At the 21 November we reported the following audit differences to the Committee:

1. £198k and £726k increase in the pension liability arising from the revised IAS 19 report as outlined above.
2. £4.636k adjustments to the Group Balance Sheet (further impact on Group CIES and MIRS), including a prior year adjustment arising from not excluding transactions with ECTC. Inter-company transactions should be removed on consolidation.
3. £90k decrease in the value of property, plant and equipment arising from the removal of duplicate entry of £236k in relation to Paradise Swimming Pool and valuation uplift of £145k on assets since they were last valued in April 2018. £567k misclassification between debtors and creditors due to Receipt in Advance being incorrectly classified as Debtors.
4. £23k understatement on exit packages.

On completion of our audit procedures we report further audit differences:

6. £145k misclassification between cash and creditors of £145k.

In addition, our sample testing of expenditure items did identify a small number which were recognised in the incorrect financial year. We extrapolated the error rate and calculated a projected understated expenditure difference of £76,000. Management have not adjusted for this item as it is a projected and not an actual understatement.

Further details can be found in Section 4 Audit Differences.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error - management override of controls	We have found no indications that management have overridden controls and have no matters to report.
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure	We have found no indications that revenue expenditure has been inappropriately charged to capital.
Other area of audit focus	Findings & conclusions
Property, Plant and Equipment valuations	We identified the need for the Council to decrease the value of PPE by £90,000.
Pension Valuation and Disclosures	We have agreed an audit adjustment of £924,000 increase to the pension liability due to the changes for McCloud, GMP and investment valuations.
Group accounts	We identified a material error which management have corrected. This also impacted on the prior year Group Balance Sheet.
New accounting standards	We identified a need for IFRS 9 (financial instruments) disclosures to be improved, which management have done. We have no other matters to report.
New payroll arrangements	We have no matters to report.

This report sets out our observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues; and
- ▶ You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The Council is below the testing threshold set by the NAO for detailed procedures on the consolidation return, we therefore did not have any issues to report.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Correspondence

As referenced in the status of the audit section we received correspondence during the course of the audit. We have not received any formal objections or questions from members of the public.



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Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – management override of controls

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ Reviewing critical judgements made by management in applying accounting policies.

What are our conclusions?

- 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 have not identified any other transactions during our audit which appear unusual or outside the Council's normal course of business.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure

What is the risk?

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts.

We have focused on the Council's judgement that an item is capital expenditure in nature.

What did we do?

Our approach focused on:

- ▶ Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- ▶ Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

What are our conclusions?

- ▶ Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value.
- ▶ Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.
- ▶ Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.



Areas of Audit Focus

Significant risk

Valuation of land and buildings

What is the risk?

The fair value of land and buildings represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

There is a risk that the value of land and buildings in the Council's accounts is materially misstated for 2018/19.

What did we do?

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities, the results of their work covering the judgements and assumptions made in assessing the impact the capital works have on the property's value;
- ▶ Reviewed and sample tested the key asset information provided by the Council to the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Reviewed and sample tested the key assumptions used by the valuer in performing their valuation, by cross referencing to available market data for similar properties within the region (e.g.: value of developed and undeveloped land);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation;
- ▶ Performed a reasonableness review on the valuation of assets not included in the 2018/19 valuation cycle, via reference to the NAO commissioned Local Government Gerald Eve report. This is performed to confirm that the remaining asset base is not materially misstated;
- ▶ Considered whether asset categories held at cost have been assessed for impairment and are materially correct; and
- ▶ Tested that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

What are our conclusions?

- We satisfied ourselves with the work of the Council's valuer.
- We identified the need for the Council to remove a duplicate entry of £236k in relation to Paradise Swimming Pool.
- We identified the need for the Council to increase the value of PPE by £145k due to the valuation uplift on Hive Leisure Centre since it was last valued in April 2018.



Areas of Audit Focus

Significant risk

Pension liability valuation

What is the issue?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2019 this totalled £26 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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.

What did we do?

- Liaised with the auditors of the Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.
- Assessed the work of the pension fund actuary (Hymans Robertson LLP) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We also considered outturn information available at the time of the audit after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required. Finally, we liaised with officers to understand the implications of the McCloud ruling and reviewed the changes made to the statements.

What are our conclusions?

We concluded that we could rely on the work of the actuary and that the values and entries from the actuarial report were correctly reflected in the draft financial statements.

The Council re-engaged the actuary to estimate the impact of the McCloud ruling and GMP on the pensions liability. We reviewed the Council's assessment of the impact and confirmed that the planned changes to the accounts were reasonable.

We also reviewed and agreed with the planned changes to reflect the difference between the year-end actual value of pension fund assets and the estimate used to inform the actuary's assessment of the IAS 19 liability.

The pension liability has increased by £924,000.



Areas of Audit Focus



Other Areas of Audit Focus - Group accounts

The Council consolidates East Cambridgeshire Trading Company (ECTC), East Cambs Business Centres and East Cambs Street Scene into its group accounts. There is an inherent risk in ensuring that the group accounts reflect fairly the financial position and performance of each component.

We reviewed the arrangements and controls the Council used to consolidate its components as well as checking the consolidation adjustments. As we identified ECTC as a significant component we also carried out procedures to gain assurance over the work of the auditor of ECTC.

Whilst we were satisfied with the work of the ECTC auditor and the arrangements that the Council has in place to consolidate the components into its group accounts we did identify an error relating to inter-company transactions. This is a material error which requires the Council to restate the current and prior year Group Balance Sheet, CIES and MIRS.



Other Areas of Audit Focus - New Payroll arrangements

For 2018/19 the Council has changed its payroll provider and needs to ensure it has arrangements in place to gain assurance over the controls and processes adopted by the new provider.

We have reviewed the adequacy of the Council's assurance arrangements over the new provider, MHR. We are satisfied that there are adequate arrangements in place to ensure the material accuracy and completeness of payroll information in the financial statements, and we were also able to agree to the monthly payroll reports provided by MHR.



Areas of Audit Focus



Other Areas of Audit Focus - New accounting standards

The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

- ▶ IFRS 9 - Financial instruments
- ▶ IFRS 15 - Revenue from contracts
- ▶ IFRS 16 - Leases

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

Standard	Audit Findings
IFRS 9 - Financial Instruments	Our audit procedures for financial instruments identified that there were some disclosure amendments required in the statement of accounts. Management have revised these disclosures.
IFRS 15 - Revenue from Contracts	Our audit procedures for revenue from contracts have not identified any audit issues.
IFRS 16 - Leases	IFRS 16 replaces IAS 17 Leases and its related interpretations, it will apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority. We have considered the Authority's implementation plan and preparedness for IFRS 16. The Authority have already considered their completeness of leases and identifying those that may require reclassifying. The Authority should continue to progress their work on IFRS 16 to ensure they are ready for its implementation.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below:

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (2019/20 Code Cpt 2.1 refers);
 - new definitions of assets, liabilities, income and expenses
 - updates for the inclusion of the recognition process and criteria and new provisions on de-recognition
 - enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (2019/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (2019/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (2019/20 Code Cpt 9 refers).



03 Audit Report



Audit Report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST CAMBRIDGESHIRE DISTRICT COUNCIL

Opinion

We have audited the financial statements of East Cambridgeshire District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement
- Authority and Group Movement in Reserves Statement
- Authority and Group Balance Sheet
- Authority and Group Cash Flow Statement
- Authority related notes 1 to 31 and notes to the Group accounts
- Collection Fund and the related notes 1 to 7.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of East Cambridgeshire District Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Finance Manager and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Finance Manager and Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2018/19 set out on pages 4 to 78, other than the financial statements and our auditor's report thereon. The Finance Manager and Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, East Cambridgeshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Our draft opinion on the financial statements

Responsibility of the Finance Manager and Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 20, the Finance Manager and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Finance Manager and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether East Cambridgeshire District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Cambridgeshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



Audit Report

Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, East Cambridgeshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of East Cambridgeshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of East Cambridgeshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge
XX XXXXXXXX 2019



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

As at 21 November we reported the following adjustments:

- IAS19 - the Council's pension liability has increased by £924k due to the impact of the ruling on McCloud, GMP and reflecting the actual value of pension assets at the year end.
- Group consolidation - we identified that transactions with East Cambridgeshire Trading Company (i.e. inter-company transactions) with a value of £4,636k were not eliminated correctly in the Group Balance Sheet in respect of Long-Term Debtors, Debtors and Creditors balances. This error also impacts the group CIES and MIRS. It also affects the prior year and as a result the Council needs to make a prior year adjustment.
- Valuation error on property plant and equipment with a net impact of £90k
- Misclassification between debtors and creditors - receipts in advance of £567k was misclassified as Debtors and hence understated both Debtors and Creditors balances.
- Exit packages are understated by £23k as they do not include the settlement agreement of £12k and pay in lieu notice of £11k.

In addition, we highlighted the need for some disclosures to be corrected.

Since then we have also identified the following audit differences which management have corrected in the revised statements:

- IFRS 9 disclosures to meet the Code requirements
- £145k misclassification between cash and creditors.

There were no uncorrected misstatements.

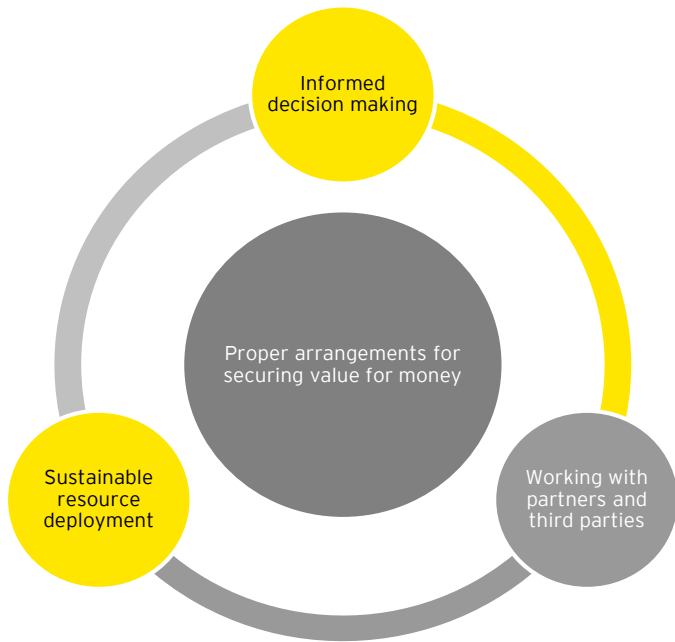


05

Value for Money Risks



Value for Money



Background

We are required to consider whether the Authority 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.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified one significant risks around these arrangements. In addition, we also considered correspondence that we received during the course of the audit. The table below presents our findings in response to the risk in our audit plan and the matters highlighted by the correspondence.

We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:
“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work. We present below the findings of our work in response to the risk area in our audit plan.

What is the significant value for money risk?

Sustainable resource deployment: Achievement of savings needed over the medium term

The Council’s Medium Term Financial Plan for the coming 4-year period identifies the need to make savings against budget gaps in 2020/21 and 2021/22. It is clear that the Council is facing a number of financial pressures which may impact on its ability to develop and deliver sustainable financial and service plans for current and future years. Therefore a risk remains that savings or increased income will not be identified to close the funding gaps.

In response we have:

- Assessed the adequacy of the Council’s budget monitoring process, comparing budget to outturn;
- Challenged the robustness of key assumptions used in medium term planning;
- Reviewed the Council’s approach to prioritising resources whilst maintaining services; and
- For a sample of initiatives tested the adequacy of the Council’s arrangements for delivering savings/ efficiencies.

What are our findings?

The Council currently has a good level of general fund reserves (£1,011K at 31 March 2019), which are above the minimum levels range set by the S151 Officer. These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Council’s financial standing. The Council also has in place substantial levels of earmarked reserves (£10,038K at 31 March 2019), including the Surplus Savings Reserve of £6,235K. The existence of these reserves provides further evidence of the Council’s prudent approach to financial management. While the Council achieved an underspend of £987K against its approved budget of £13,099K in 2018/19, it has also identified a contribution of £1,539K from Surplus Saving Reserve in order to reach a balanced budget for 2019/20.

(Continued over)



Value for Money

What are our findings (continued)?

The Council's February 2019 Medium Term Financial Strategy showed a balanced budget for 2020/21 using £3.4m from the Surplus Savings Reserve. At that stage it reported budget gaps for 2021/22 and 2022/23 identifying some options to resolve the gaps:

- Efficiencies in the cost of service delivery
- Reductions in service levels
- Increased Council Tax
- Increased income from fees and charges
- Increased commercialisation via its trading companies

The Finance Manager's report to the February 2020 Finance and Asset Committee includes a balanced budget for 2020-21 and 2021-22 as a consequence of a number of factors not least the Spending Review having been delayed a year.

The MTFS remains a challenge for the Council. We suggest that the Council could be more transparent in its planning around the areas it has identified to help bridge funding gaps and we recommend that the Council considers updating its MTFS and its underlying assumptions more frequently than the current annual cycle.

RECOMMENDATION 1

The Council should consider increasing the frequency that it considers and updates its MTFS and the underlying assumptions.

MANAGEMENT RESPONSE

Agreed, in order to build robust, balanced budgets in future years, it will become increasingly important that the Council considers the options around its MTFS on a timely basis. Officers are already doing this throughout the year and moving forward this will also be shared with Members at their September meeting.

Correspondence

Information was brought to our attention in an 'Open Letter to auditors' dated 11 October 2019 from the Liberal Democrat Group. We considered this information to be relevant for our consideration of the Council's arrangements for the effective use of resources for 2018/19 and our subsequent value for money conclusion.

Summary of matters highlighted

The 11 October letter highlighted concerns over the relationship and governance arrangements between the Council and its wholly owned subsidiary company, East Cambridgeshire Trading Company (ECTC). These concerns are three-fold:

- A. That the November 2019 change to the composition of the ECTC Board means that no decisions can be made by the Board or the Council.
- B. The risk that ECTC will default on its loan repayment to the Council, impacting adversely on the Council's finances.
- C. That there are conflicts of interest with ECTC Board members and their roles within the Council, specifically in respect of the co-dependencies between ECTC and the Council.

Summary of procedures carried out by EY

We have made relevant enquiries to the Finance Manager and asked a series of questions in respect of the three issues identified above. As these procedures have formed part of our VFM work we have not carried out any testing of information provided but through requesting information and asking questions we have sought evidence that arrangements are in place.

The Finance Manager has responded promptly and comprehensively to all of our enquiries.

Background

ECTC was incorporated on 14 March 2016 as a wholly owned subsidiary of the Council. Its principle business is providing markets services, ground maintenance and property consultancy and development services. The day to day management of ECTC is vested in its Directors. As the sole shareholder, the Council established a Shareholder Committee to essentially monitor the Council's investment by giving it the ability to:

- Recommend the appointment of the Chair of the ECTC Board.
- Consider the ECTC Business Plan, including making recommendations for amendments.
- Review the financial performance of ECTC.
- Make recommendations to the Council on how it should exercise its functions flowing from its ownership of shares.

In February 2019, the Council agreed to make the Finance and Assets Committee fulfil the role of the Shareholder Committee.

The Shareholder Agreement between the Council and ECTC includes requirements of the Board. The current Agreement requires the Board to comprise not less than four Directors but does not include any requirements on Board composition. The Board is chaired by an individual independent of the Council. In May 2019 the Council agreed changes to member appointments to the Board. Then in October 2019 the Council made further changes to re-designate elected members as Board members with voting rights to observer non-voting status. The Shareholder Agreement has yet to be formally updated to reflect these changes.



Background (continued)

On 16 June 2016 the Council agreed to loan ECTC £5m for purposes as outlined in the ECTC Business Plan. The agreement was for the loan to be repaid within 5 years of the date of the first drawdown. On 20 December 2018, the Council agreed a £1.5m extension of the loan specifically for the purchase and development of the MOD Site, Ely. The extended loan will fall due in line with the original loan, March 2021.

Consideration of the matters highlighted by the correspondence

- A. That the November 2019 change to the composition of the ECTC Board mean that no decisions can be made by the Board or the Council.
- C. That there are conflicts of interest with ECTC Board members and their roles within the Council, specifically in respect of the co-dependencies between ECTC and the Council.

The appointment of an independent Chair of the Board provides some safeguards to potential or actual conflicts of interests. From reviewing the minutes of Board meetings (April 2018 - September 2019) it is evident that declarations of interest are a standing agenda item and on occasions specific declarations have been recorded.

Following the changes to the Board Directors in October 2019, the Board now comprises the independent Chair and two officers of the Council - the Chief Executive and the Commercial Director. Elected members are now involved as non-voting Board Observers. Whilst it is not uncommon for officers of a council to be directors of council trading companies, the current composition of the Board does reduce the ability of the Directors to mitigate any perceived or actual conflicts of interest that may exist between their roles as an officer of the Council and a Board Director. For example, in the scenario that ECTC is unable to repay the loan, how will the Directors of the company discharge their board responsibilities and act in the interests of the company when they will be acutely aware of the impact of default on the Council.

We understand that the changes made by the Council to the composition of the Board in October 2019 was not based on legal advice.

The changes made to the composition of the Board are currently bedding in. However, based on a review of the ECTC Articles of Association and the Shareholder Agreement, we cannot see any reason why the Board or the Council cannot continue to make decisions.

RECOMMENDATION 2

The Council should consider obtaining legal advice on the changes it has made to the composition of the ECTC Board to ensure that the new arrangements enable the Board to mitigate any conflicts of interest that the two Council officers may face when making decisions as Board Directors.

MANAGEMENT RESPONSE

While it should be noted that the Directors of the Board are not decision makers at the Council - this is a member function at the Council - we are happy to seek advice with the intention of preparing a "conflicts of interest policy", to assist in this area moving forward.

Consideration of the matters highlighted by the correspondence (continued)**B. The risk that ECTC will default on its loan repayment to the Council, impacting adversely on the Council's finances.**

The Shareholder Agreement includes a number of details about the ability of the Council, via the Shareholder Committee, to monitor its investment in ECTC. Most significantly the Shareholder Agreement:

- Allows the Shareholder Committee to receive, review and comment on, or recommend any amendments to, the ECTC Business Plan.
- Allows the Shareholder Committee to review the financial performance of ECTC.
- Requires the ECTC Board of Directors to provide quarterly (changed to biannually in the October 2019 proposed revision) information on progress against the Business Plan, summary management accounts and key financial metrics (including financial projections and variations).
- Requires ECTC to produce annual audited accounts.
- Requires ECTC to provide the Council with full details of any actual or prospective material change in the business or financial affairs of the Company as soon such details are available.

In addition, the Articles of Association of ECTC afford the Council the ability to review the 'books and records' of the Company.

Shareholder Committee meeting minutes (28/6/18, 1/10/18, 3/12/18, 11/2/19, 26/9/19 and 28/11/19 - the latter two being the Finance and Assets Committee) record details of the Committee considering the ECTC Business Plan, management accounts and annual accounts. In addition, the Council's Finance Manager and Monitoring Officer regularly attend the Shareholder Committee and ECTC Board as non-voting members and are able to ask questions during any discussion that takes place. The Finance Manager has also stated that he has full access to ECTC's Management Accountant and can request any financial information off him at any time.

The most recent loan advance from the Council to ECTC was in June 2018. At this point, the Council's Finance Team were providing financial support to both the Council and the Company and as such, the Council had full access to the cashflow projections supporting the advance. In November 2018 a management accountant was appointed by ECTC, at which point managing the Company accounts was taken from the ECDC Finance Team.

In respect of ECTC's forecast cashflows and outturn, ECTC prepares financial modelling forecasts which are discussed at Board meetings. The Finance Manager, as the Council's Section 151 Officer, attends the Board meetings and is able to challenge any of the information provided and discuss issues in more detail with the Management Accountant outside of Board meetings. From reviewing Board meeting minutes, any such challenge does not appear to be recorded and minuted. There could be greater transparency in how this challenge is recorded.

In its 26 September 2019 meeting the Finance and Assets Committee did consider the ECTC's balance sheet and cash flow forecasts up to March 2021 as they were included in the ECTC Business Plan.

To date the Council has made no allowance in its MTFS for the non-repayment by ECTC of its loans with the Council. The MTFS also does not assume any dividends will be received from ECTC. The Finance Manager, based on his understanding of ECTC's current and future financial performance, does not consider non-repayment of the loan as a significant risk. The Finance Manager has acknowledged that in the event that the loan is not repaid, the Council will need to make a charge to its minimum revenue provision (MRP), but the Council does not consider it necessary to build in any contingency for this at this time. It is not clear where the Council's considerations over the risk of ECTC defaulting on repaying its loan are documented.



Consideration of the matters highlighted by the correspondence (continued)

We understand that there have been recent discussions between the Council and ECTC about the potential for ECTC paying back some of the loan to the Council in 2019-20. We also understand that a repayment schedule has now been agreed by the ECTC Board. This was part of a verbal discussion as part of the management accounts item on the agenda. The Board minutes have not yet been drafted but the Council expects ECTC to make a loan repayment prior to the end of January 2020. Further, we are informed that the Board also agreed a loan repayment schedule, which will be a fundamental part of the finance report for future meetings.

RECOMMENDATION 3

The Council should document its consideration of the risk associated with ECTC defaulting on repaying its loan. The risk should be regularly revisited and updated as appropriate.

MANAGEMENT RESPONSE

As Section 151 Officer, I (Finance Manager) am, on a regular basis, monitoring the performance of the Company, to ensure that I continue to have confidence that the loan will be repaid. I accept that to date this has only been a mental exercise and I have not documented my thought processes. I am happy to put in writing that I have had these deliberations in the future, but it is only a judgement view, as there are no calculations that would allow an objective view to be arrived at.

RECOMMENDATION 4

The Council should ensure that the challenge made by the Finance Manager as to the financial performance (current and future) of ECTC is documented and shared with the Finance and Assets Committee in its role as Shareholder Committee.

MANAGEMENT RESPONSE

Agreed, I (Finance Manager) will ensure that my challenge at Board is appropriately included in the minutes moving forward.

RECOMMENDATION 5

The Council should ensure that the ECTC loan repayment schedule is made available to the Finance and Assets Committee (in its role as Shareholder Committee) as part of the assurances that they should obtain to support ECTC's ability to repay its loan to the Council.

MANAGEMENT RESPONSE

Finance and Assets Committee members receive Board minutes, and as such, will receive details of the loan repayment schedule when the minutes for the meeting on the 14th November are circulated.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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, is specified by the National Audit Office.

As the Authority falls below the £500 million threshold for review as per the NAO's group instructions, we are not required to undertake detailed procedures on your consolidation schedule.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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 to you significant deficiencies in internal control.

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.



08

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Outline Audit Plan dated January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Finance and Assets Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Finance and Assets Committee on 28 November 2019.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019. In our Outline Audit Plan we indicated a range for the additional audit work we were aware of at that time. We have indicated the final additional fee where that work is complete.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements, though we are engaged to act as reporting accountant in respect of the Housing Benefit Subsidy claim, as set out below. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final fee 2018/19	Planned fee 2018/19	Final Fee 2017/18
		£	£
Scale fee	31,955	31,955	41,500
Audit of group accounts	6,425	5,000 - 7,000	5,025
Working paper issues	-	-	6,125
Change to 50% materiality (Note 1)	6,665	5,000 - 7,000	-
Correspondence matter (Note 2)	2,005	-	-
Total audit	47,050	41,955 - 45,955	52,650
Other non-audit services not covered above Housing Benefits Subsidy Claim	TBC	14,960	12,004
Additional 40+ testing	TBC	-	2,034
Total other non-audit services	TBC	14,960	14,038
Total fees	TBC	56,915 - 60,915	66,688

All fees exclude VAT. We will agree the additional fees with the Finance Manager before seeking approval from PSAA.

Notes 1 & 2: Subject to providing a detailed breakdown of work by grade with the Finance Manager.



09

Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:





- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, plant and equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change
Investment properties			
Short term debtors			
Short & long term borrowing			
Short & long term creditors			
Provisions			
Other long term liabilities			
Capital grants received in advance			
Reserves			





Appendix B

Required communications with the Finance and Assets Committee




There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Performance, Audit and Governance Oversight Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Outline Audit Plan - Jan 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Outline Audit Plan - Jan 2019
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - November 2019 Final Audit Results Report - Feb 2020



Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about East Cambridgeshire District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - November 2019 Final Audit Results Report - Feb 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Finance and Assets Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - November 2019 Final Audit Results Report - Feb 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to the Committee's responsibility. 	Audit Results Report - November 2019 Final Audit Results Report - Feb 2020

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		Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures, Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	<p>Audit Results Report - November 2019 Final Audit Results Report - Feb 2020</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Outline Audit Plan - Jan 2019 and Audit Results Report - November 2019 Final Audit Results Report - Feb 2020</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all requested confirmations</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	<p>Audit Results Report - November 2019 Final Audit Results Report - Feb 2020</p>

Appendix B

		Our Reporting to you
Required communications	 What is reported?	 When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Performance, Audit and Governance Oversight Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Written representations	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - November 2019 Final Audit Results Report - Feb 2020
Material inconsistencies or misstatements	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - November 2019 Final Audit Results Report - Feb 2020
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - November 2019 Final Audit Results Report - Feb 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Outline Audit Plan - Jan 2019 and Audit Results Report - November 2019 Final Audit Results Report - Feb 2020

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ED None

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