

East Cambridgeshire District Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

Contents

Executive Summary	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit	10
Value for Money	13
Other Reporting Issues.....	17
Focused on your future.....	20
Appendix A Audit Fees	23

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

A close-up photograph of a hand holding a blue pen, writing on a document. The hand is positioned on the right side of the frame. In the background, a laptop is open, and a calculator is visible on the desk. A white mug is on the left side. A yellow rectangular box is overlaid on the left side of the image, containing the text "Executive Summary".

Executive Summary

Executive Summary

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

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

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

Area of Work	Conclusion
Reports by exception: ▶ 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 final Audit Results Report was issued on 30 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 September 2016.

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris

Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 29 September Corporate Governance & Finance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

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

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

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 30 September 2016.

Our detailed findings were reported to the 29 September 2016 Corporate Governance & Finance Committee.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>
<p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>We reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. Our testing did not identify any expenditure which had been inappropriately capitalised.</p>

Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p>	<p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.</p> <p>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.</p>
<p>Assessment of the Group boundary</p> <p>East Cambridgeshire District Council has a number of joint arrangements which may necessitate the preparation of group accounts.</p> <p>The Council will need to identify and consider all of its relationships with its subsidiaries and other partners and assess the nature of these arrangements to determine whether they create functional bodies and other group entities which now fall within the group boundary and therefore require consolidating into the Council's Financial Statements. Group accounts are currently prepared by the Council to consolidate the Business Centre in its accounts.</p> <p>The review will need to consider the new accounting practices introduced in the 2014/15 CIPFA Code of Practice.</p> <p>There is a risk that associated group boundary changes may go undetected, and that the required disclosures are not made in accordance with the new standards.</p>	<p>We completed our planned audit procedures and we concluded that the Council has prepared appropriate group accounts and disclosures.</p>

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

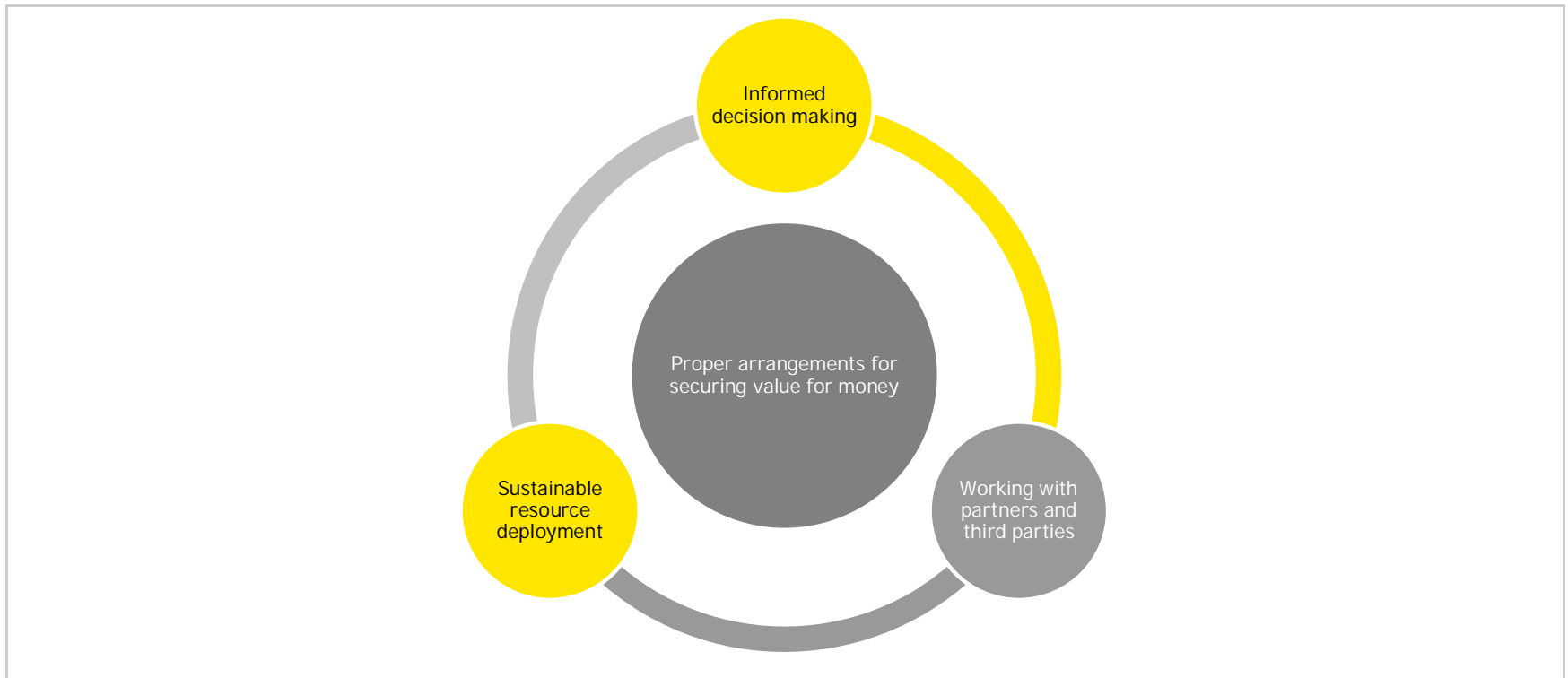
Value for Money

Value for Money

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

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 issued an unqualified value for money conclusion on 30 September 2016.

We identified two significant risks in relation to our value for money conclusion. This related to the budget pressures faced by the Council, and the Leisure Centre Local Authority Trading Company projects.

We performed the procedures outlined in our Audit Plan and concluded that the Council had adequate arrangements in place.

As part of our work we considered the following areas and made the following observations:

Key Findings

Budget pressures

To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.

The budgets for 2016/17 and 2017/18 are fully funded based on the Council's assumptions in its Medium Term Financial Strategy. However, there are significant budget shortfalls projected in the subsequent years; £806k for 2018/19 and £2.4million in 2019/20.

The Council currently holds a prudent level of reserves.

The budget for 2018/19 assumes the remaining balance on the Surplus Savings Reserve will be utilised, which will reduce the overall levels of reserves to adequate.

The budgetary implications of the new Leisure Centre had not been incorporated in the 2016/17 budget, at the time of issuing our audit plan, as this had not been formally approved by Full Council.

We reviewed the Council's 2016/17 budget and the medium term forecast, assessing the extent of the savings plans in place. This took into account the Council's historic record.

In 2015/16 the Council continued its track record of achieving its annual budget, delivering a surplus of £1.6m, which has been transferred into the Surplus Savings Reserve. The general fund balance now stands at £1.8m and Earmarked useable reserves at £7.4m as at 31 March 2016.

The 2016/17 and 2017/18 budgets are balanced, Although it is still relatively early in the financial year, we assessed these as reasonably based; taking into account the Council's track record of delivering savings over the recent financial periods. While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans gives confidence that it can continue to do so.

We also reviewed the key assumptions in the budget and MTFs, which adequately took into account the economic environment at that time for business rate projections, and the forecast for reduced central government funding and the potential four-year settlement.

The cumulative budget gap, taking into account the 2015/16 outturn, is now forecast at £3.2m to 2019/20. Compared to a gross expenditure of approximately £35m per annum, and based on the Council's track record, we judge this to be a manageable budget gap.

Therefore, based on the known information as at the end of the financial year, we assess the Council to have adequate arrangements.

Key Findings

Leisure Centre development and Local Authority Trading Company (LATC)

The Council is planning a new leisure centre development within the next year, and is currently considering a number of options for financing this project.

The 2016/17 budget papers show that funding of the Council Local Authority Trading Company (LATC) will be treated as capital expenditure which will be funded from borrowing. It is proposed to use the Council's cash balances held in short-term investments, pending potential capital expenditure in the new Leisure Centre, at which point the Council may seek an external loan.

The funding of the capital programme includes the £5 million borrowing to fund the LATC loan. The funding also assumes the receipt of certain capital receipts and deferred capital receipts.

Other funding sources are also being considered for the new Leisure Centre (e.g. CIL, Sport England funding) but will only be released if the project is approved by Full Council.

Subject to Council approval, the capital funding of a new district-wide Leisure Centre will be included in the capital programme, along with the sources of funding.

The Council anticipates there will be no additional revenue implications in funding the capital programme.

We have reviewed relevant documents, reports, and key decisions, including:

- funding strategy for the Leisure Centre;
- revised capital programme
- revised Medium Term Financial Strategy
- tender process;
- procurement documents;
- appointment of constructor and operator;
- special council minutes;
- treasury management strategy; and
- LATC Board and establishment committee minutes.

We have no concerns to raise at this time.



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member 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 Corporate Governance & Finance Committee on 29 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls. As part of our work, we obtain an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have not identified any matters to bring to your attention.

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

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p>
Devolution in East Anglia	<p>The UK has lagged behind other countries in decentralising its governance. But in recent years, 'localism' has gained momentum. Large parts of England have started to agree Devolution Deals, which transfer powers in policy areas such as housing, planning and transport, education, employment, skills, health and policing. If managed well, it could help stimulate local economies to achieve higher levels of job creation and growth; improve public service outcomes through better local coordination of resources and funding; revitalise local democracy through more accountable governance; and improve the sustainability of public finances. In March, the Chancellor published an offer to local authorities in East Anglia - to form an East Anglia Combined Authority covering Norfolk, Suffolk, Cambridgeshire and Peterborough. Communities and businesses in Cambridgeshire and Peterborough were consulted on the proposals. Negotiations between the Councils in the East Anglian region concluded that the interests of the region would be best met through two combined authorities - Cambridgeshire and Peterborough, and</p>	<p>The Cities and Local Government Devolution Act came into force on 28 March 2016. Orders and regulatory amendments relating to constitutional or electoral issues need to be in place by late 2016 to ensure that the combined authority can come into effect early in 2017 and the Mayoral elections can take place in May 2017. The Secretary of State must first make an Order for the creation of the combined authority and then seek consent to the draft Order from each authority. The draft Order will be considered by both Houses of Parliament before being made.</p> <p>In EY's report 'From Whitehall to Townhall Preparing for devolution to England's city regions' we look at progress so far and outline the factors that have driven success in winning more powers. We reflect on the readiness of different areas to make a success of</p>

Area	Issue	Impact
	<p>Norfolk and Suffolk. Cambridgeshire and Peterborough have now negotiated a new devolution deal, proposing the formation of a Combined Authority including: Peterborough City Council, Cambridgeshire County Council, Fenland District Council, Huntingdonshire District Council, East Cambridgeshire District Council, South Cambridgeshire District Council, Cambridge City Council and the Greater Cambridge Greater Peterborough Local Enterprise Partnership. This proposals remains subject to ratification by each Council.</p>	<p>devolution and speculate on the long-term impact on local government. The debate will continue for some time to come, and lessons will be learned along the way. Drawing on our experience of working with a number of local authorities and cities, we are committed to helping facilitate debate and sharing best practices to help local government deliver the best services and outcomes to their communities and citizens.</p> <p>We will also need to consider how Councils are preparing for the transition to the new arrangements, whilst maintaining 'business as usual,' for our 2016/17 Value For Money conclusion.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2015/16 will be more than the scale fee set by the PSAA as reported in our Annual Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee – Code work: Note 1	TBC	43,897	41,500	55,333
Total Audit Fee – Certification of claims and returns: Note 2	TBC	15,206	15,206	19,290

Note 1 - Audit Fee – Code work. We have carried out additional audit work to respond to the risks described in our plan and this report. We have reviewed our costs now we have completed our outstanding procedures. We reported in our Audit Results Report in September that we expected this additional fee to be no more than 10% of the scale fee. This additional fee will be £2,397, which is less than 6% of the scale fee. The additional fee covers the work involved in responding to the audit risks outlined in this report, and the issues discussed in our Audit Results Report presented to the Audit Committee on 29 September 2016. The additional fee is currently subject to approval by Public Sector Audit Appointments Ltd (PSAA).

Note 2 - We have just commenced our work in this area. Our certification of the Housing Benefit claim will be completed to the 30 November 2016 deadline, and the final fee concluded at that time. We will report the results of our work and the final fee with you in our certification report in January 2017.

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

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

[ey.com](https://www.ey.com)