East Cambridgeshire District Council

Corporate Governance & Finance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015

Building a better working world

Contents

Appendices

Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Corporate Governance & Finance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- As of 16 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

Value for money

- We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council’s responsibilities

- The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

Purpose of our work

- Our audit was designed to:
  - Express an opinion on the 2014/2015 financial statements and the consistency of other information published with them
  - Report on an exception basis on the Annual Governance Statement
  - Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
  - Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council’s accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
Risk of management override As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.	Our approach focussed on: ► testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ► reviewing accounting estimates for evidence of management bias; ► evaluating the business rationale for significant unusual transactions; and ► reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.	Our audit work identified no matters that we need to bring to the Council's attention.

Addressing audit risks – other audit risks

- We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
Group accounting standards The 2014/15 CIPFA Code of Practice introduces new accounting practices in relation to: ► the specification of new control criteria under IFRS 10 (Consolidated financial statements); ► new classification requirements for joint arrangements under IFRS 11 (Joint arrangements); and ► the requirements of the new disclosures standard IFRS 12 (Disclosures of interests in other entities). 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.	Our approach focussed on: ► evaluating management controls in place to ensure all group assessment considerations have been made; and ► reviewing the reasonableness of the group assessment against the requirements of the Code and International Financial Reporting Standards (IFRS).	We reviewed the Council's group assessment and identified no matters that we need to bring to the Council's attention.

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- The following areas of our work programme remain to be completed. We will provide an update of progress at the Corporate Governance & Finance Committee meeting:
  - Finalisation of detailed audit procedures on creditors and journals
  - Receipt of a Letter of Representation
- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- We have identified two misstatements within the draft financial statements, which management has chosen not to adjust.
- We ask the Corporate Governance & Finance Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation.
- Appendix A to this report sets out the uncorrected misstatements.

Corrected misstatements

- Our audit identified a number of further misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work and most are not significant enough to bring to the attention of the Committee. However further details of one corrected error is provided at Appendix B.

Other matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
  - Qualitative aspects of your accounting practices; estimates and disclosures;
  - Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - Any significant difficulties encountered during the audit; and
  - Other audit matters of governance interest.

We have no matters we wish to report.

Financial statements audit – application of materiality

Our application of materiality

- When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning Materiality and Tolerable error	We determined planning materiality to be £0.820 million (2014: £0.780 million), which is 2% of gross expenditure reported in the accounts of £37.9 million adjusted for other operating expenditure of £2.2m and financing and investment expenditure of £0.8m = £40.9m . We determined materiality for the consolidated group accounts to be £0.822m. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council's 2013/2014 financial statements and no uncorrected errors.
Reporting Threshold	We agreed with the Corporate Governance & Finance Committee that we would report to the Committee all audit differences in excess of £39k (2014: £39k)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas,. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits.
- Related party transactions.

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

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- It is the responsibility of the Council 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 Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- We have not yet received the Council's Annual Governance Statement for our review. Once received, we will review it in order to be able to confirm that:
  - It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - It is consistent with other information that we are aware of from our audit of the financial statements.
- 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.

Request for written representations

- We have requested a management representation letter to gain management's confirmation in relation to a number of matters.
- This is to be issued to us following the Corporate Governance & Finance Committee on 28 September 2015.

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 are specified by the National Audit Office.
- We are currently concluding our work in this area and will report any matters that arise to the Corporate Governance & Finance Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that East Cambridgeshire District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- 'Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- Since the issue of our audit plan, we have identified one **significant** risk in relation to this criteria:
  - Pressures from economic downturn (see next slide)
- We have no issues to report in relation to this criteria.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- 'Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- We did not identify any significant risks in relation to this criteria
- We have no issues to report in relation to this criteria.

Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Addressing audit risks – significant VFM risks

We identified the following VFM risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertaken additional audit work to enable them to reach an appropriate conclusion.

Due to the scale of future financial pressures and the Council's current budget gap for the period to 2017/2018, we **escalated the risk around the Council's financial resilience to a significant risk**, and so have carried out additional work to assess the Council arrangements for securing financial resilience.

VFM risk identified within our Audit Plan
Financial resilience
Pressures from economic downturn To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. At the audit planning stage, the Council was forecasting a cumulative budget gap of £2.7m by the end of 2017/2018. This was the forecast budget gap for 2017/18 of £1.955m, plus we also took into consideration the planned use of reserves to balance the budget, (of £688k across the three years at the time we carried out the review). The Council's revised MTFS shows it has now closed the gap for 2017/18, however there is still planned use of reserves in in 16/17 of £614k to balance the budget and there remains significant financial pressure on the Council's budget during the subsequent financial years.
Our approach focused on: ► The adequacy of the Council's budget setting process. ► The robustness of any assumptions. ► The effective use of scenario planning to assist the budget setting process. ► The effectiveness of in year monitoring against the budget. ► The Council's approach to prioritising resources whilst maintaining services, including a focus on partnership arrangements and asset utilisation.
We consider that the Council has proper arrangements in place to secure financial resilience. The leadership team understands the significant and rapidly changing financial challenges and risks facing the Council, and is taking appropriate action to secure a stable financial position. It has adequate levels of reserves, and a recent history of achieving savings.

Addressing audit risks – other VFM risks

We also identified the following area of focus in our Audit Plan:

VFM risk identified within our Audit Plan
Leisure Centre
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.
Our planned approach was to focus on a review of reports and plans concerning : ► The decision making process ► The subsequent procurement process ► The financing arrangements, and accounting treatment; and ► The consideration of the impact on the financial resilience of the Council. We also considered any legal advice sought by the Council, both in relation to the Leisure Centre and to the setting up of the Local Authority Trading Company (LATC)
Leisure Centre: We noted that the feasibility study identified funding shortfalls for the proposed leisure centre development which ranged from £1.5 million to £2.5 million. Whilst no firm decision has yet been made regarding the development, with members asking for more work to be done examining the project costs, it is important that the project carefully considers and concludes on the financial viability before entering into capital commitments. Approval of the final funding strategy is now planned for April 2016. We will continue to review any key plans and reports , particularly in relation to affordability, financing and accounting, and we expect to be kept informed of any key decisions. *Local Authority Trading Company (LATC)*: On 16 July, Full Council approved the set up of a 'LATC establishment committee' as part of its preparations for the creation of a local authority trading company. The Council is taking and acting on legal, financial and procurement advice in relation to this development. It will continue to be important for the Council to continue to consider carefully advice received in relation to this project, to ensure that the Council's plans remain within the requirements of the law. Further reporting to Council is planned for January 2016.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 27 February 2015.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Corporate Governance & Finance Committee on 28 September 2015.
- We confirm that we have met the reporting requirements to the Corporate Governance & Finance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 27 February 2015.

Audit fees

- The table below sets out the scale fee and our final proposed audit fees. Further information on scale fees, which are set by Public Sector Audit Appointments Ltd, can be found at www.psaa.co.uk

	Scale fee 2015/2016	**Proposed final fee 2014/2015**	**Scale fee 2014/2015**	**Variation comments**
		£	**£**	
Audit Fee: Code work	*41,500*	**To be confirmed***	**55,333**	**We have incurred increased costs examining the Council's VFM arrangements**
Certification of claims and returns	*15,206*	**Work still to be completed**	**19,290**	
Non-Audit work	*None*	**None**	**None**	

- We expect our actual fee***** to exceed the scale fee due to increased work on the Council's VFM arrangements including examining the Council's planned Leisure Centre development and formation of a local authority development company. Once our audit is complete we will be able to quantify this more fully and report to members. Any variation to the scale fee is subject to agreement by both officers and PSAA Limited.
- We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements

Section 7

Appendices

Appendix A – uncorrected audit misstatements

- The following misstatements have been identified during the course of our audit and in our professional judgement warrant communicating to you as those charged with governance.
- These items have not been corrected by management.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement	
	Description	F, P, J	Debit/(credit)	Debit/(credit)	
CIES S106 contributions	A section 106 contribution received in a prior year (and held in creditors - receipts in advance), has been paid back in this year as the conditions had not been met. The payment has incorrectly been recognised as income and expenditure during the year. *No impact on financial position .*	F		Dr Income planning & development Cr Expenditure planning & development	£535,000 (£535,000)
Cumulative effect of uncorrected misstatement			0		0

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

Appendix A – uncorrected audit misstatements (cont'd)

- The following misstatements have been identified during the course of our audit and in our professional judgement warrant communicating to you as those charged with governance.
- These items have not been corrected by management.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet		Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)		Debit/(credit)
Note 9 – PPE: Vehicles, Plant and Equipment.	Our audit identified several assets which had been fully depreciated and were no longer in use but had not been written out of the asset register and Note 9. Their NBV was nil, but their cost and accumulated depreciation was still in note 9. The assets identified were removed (see corrected errors) but we have extrapolated an error to account for any potential remaining such assets. The Council will review in detail in 2015/16. *No impact on financial position.*	P	Dr Accumulated depreciation Cr Gross Book Value	£96,310 (£96,310)	
Cumulative effect of uncorrected misstatement				0	0

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

Appendix B – corrected audit misstatements

- The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet		Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)		Debit/(credit)
Note 9 – PPE: Vehicles, Plant and Equipment.	Our audit identified several assets which had been fully depreciated and were no longer in use but had not been written out of the asset register and Note 9. Their NBV was nil, but their cost and accumulated depreciation was still in note 9. These have now been correctly written out and removed from note 9. See previous slide. *No impact on financial position.*	F	Dr Accumulated depreciation Cr Gross Book Value	£931,179 (£931,179)	
Cumulative effect of uncorrected misstatement				0	0

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

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ED None

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