East Cambridgeshire District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Contents

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

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

The "Terms of Appointment (updated 23 February 2017)" issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

Executive Summary

Executive Summary

We are required to issue an annual audit letter to East Cambridgeshire District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

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

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Group and Council as at 31 March 2017 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).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 11 September 2017, and presented to the Resources and Finance Committee on 21 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 September 2017.

In January 2018 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.

Suresh Patel

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose and responsibilities

Purpose and responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 21 September 2017 Resources and 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 of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we presented to the Resources and Finance Committee meeting on 3 April 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion on the 2016/17 financial statements; and on the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 September 2017.

Our detailed findings were reported at the 21 September 2017 Resources and Finance Committee meeting. The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	We 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. The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial valuation and found no indication of management bias in these estimates. Our work on the property valuations has been completed and we found no indication of management bias to the balances presented within the financial statements. We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any material instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Significant Risk	Conclusion
Revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end. In our view, as the Council's main sources of revenue are largely fixed and budgeted for, e.g. government grants and taxation, the revenue recognition risk exists largely in relation to the potential for the incorrect classification of revenue spend as capital. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.	We considered whether or not revenue spend had been appropriately capitalised by testing a sample of additions to property, plant and equipment to ensure these were correct to be included as assets on the balance sheet. Our testing did not identify any material expenditure items, which had been inappropriately capitalised. We tested a sample of income and expenditure transactions based on our established testing threshold for accuracy. We also carried out cut-off testing, where we examined a sample of receipts and payments before and after year end to ensure that the transactions were properly recorded in the accounts. Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition. Overall, our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.

Other Key Findings	Conclusion
Financial statements presentation Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The service analysis should be based on the organisational structure under which the Council operates. This change in the code requires a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.	We reviewed the Expenditure and Funding Analysis, restated CIES and associated notes. We agreed with the Council's assessment for reporting its organisational structure and agreed the restated comparative figures back to the Council's segmental analysis and supporting working papers. The disclosures were in line with the CIPFA Code of Practice.
Property valuations At 31 March 2017 the value of property on the Council's balance sheet was nearly £25 million, representing 55% of the total assets. To ensure assets are recorded at fair value, the Council adopts a rolling five year revaluation programme (i.e. 20% of assets are revalued each year). This is an exercise which involves judgement, input from external experts and leads to a material accounting estimate. Where there are increases or decreases in asset valuations, the accounting entries required to record these changes affect several primary statements and disclosures in the Council's financial statements.	We assessed and were satisfied with the competency and objectivity of the Council's property valuer. Therefore, we were able to place reliance on their work and carried out audit procedures to challenge the basis of valuation used by the valuer.

Other Key Findings	Conclusion
Pension valuations and disclosures The Council is an admitted body to the Cambridgeshire Pension Fund. Hymans are appointed as actuaries for this fund and provide the Council with the figures for the disclosures in the financial statements, based on payroll and pension data provided to them by the Council. The value of the pension liability is a significant balance sheet item (£22.2 million at 31 March 2017) and represents a material accounting estimate.	We assessed and were satisfied with the competency and objectivity of the Council's actuary. Our work found that assumptions used by the actuary and adopted by the Council were considered to be generally acceptable. The sensitivities relating to these assumptions had been correctly disclosed in the notes to the financial statements.
Preparation of group accounts The Council has a number of joint arrangements which necessitate the preparation of group accounts. As last year, the Council assessed each arrangement to determine what falls within the group boundary and therefore required consolidating into the Council's financial statements. The Council needed to ensure its consolidation procedures capture all the relevant information and enable it to meet the accounting and disclosure requirements of the Code.	Our audit approach focused on: • Reviewing the Council's assessment of the group boundary and the significance of the components to the group accounts. Previously the Council has consolidated ECBC but for 2016/17 it has decided to also consolidate ECTC Ltd. We concur with the Council's assessment. • Engaging with Price Bailey, as the auditors of ECTC Ltd, to report to us on procedures they have performed over balances included in the ECTC Ltd financial statements. • Reviewing the Council's processes for consolidation, agreeing the consistency of accounting policies, and checking that inter-company elimination is appropriate. • Reviewing the completeness of the disclosures in the group accounts to ensure they are materially accurate and complete. We identified some audit adjustments from these procedures which management adjusted for in the final version of the accounts. These were the inclusion of a Group Movement in Reserves Statement and reclassification of the work in progress to Assets under Construction.

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

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality for East Cambridgeshire District Council and the Group to be £0.8 million (2016: £0.760 million). We reassessed this using the actual results for the financial year, which increased this amount to £0.814 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure. We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Resources and Finance Committee that we would report to the Committee all uncorrected audit differences in excess of £41,000 (2016: £38,000).

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: we audited all disclosures and undertook procedures to confirm material completeness
- Related party transactions: we audited all disclosures and undertook procedures to confirm material completeness.
- Councillors' allowances: we agreed the amounts disclosed in the financial statements to those on the Council's website and carried out substantive testing.

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

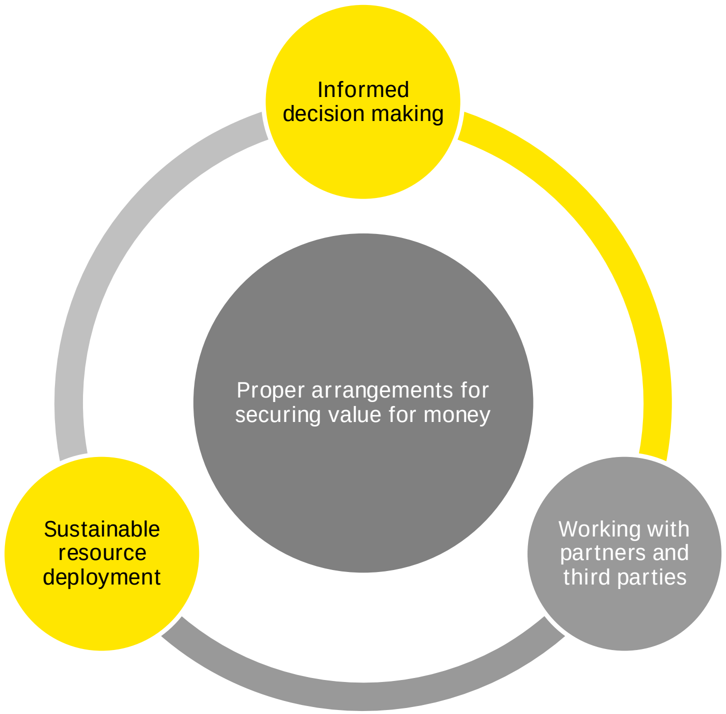
Value for Money

Value for Money

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

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified no significant risks in relation to these arrangements. However, we did focus on the financial resilience of the Council given the financial challenges faced by local government.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness on its use of resources.

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

Consideration of financial resilience	Conclusion
In common with the majority of the local government sector the Council faces significant financial challenges over the next three years. While the budget gaps for 2017/18 and 2018/19 have been closed after planned use of reserves, the phasing of reductions in government support and pressures on costs mean that the gap is £0.4 million in 2019/20.	We reviewed the Council's 2017/18 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 2016/17 the Council continued its track record of achieving its annual budget, delivering a surplus of £1.7 million. The Surplus Savings reserve has a balance of £4.8m. The general fund balance stands at £1 million as at 31 March 2017, and total earmarked reserves at £13.015 million. 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 budget gaps for 2017/18 and 2018/19 have been closed after planned use of the surplus savings reserve. The gap in 2019/20, reported in the budget book, is £410,000 after using up the surplus savings reserve of £1.972 million. However with the underspend reported in 2016/17, and its allocation to the Surplus Savings Reserve, the Council is confident that it will balance the budget for 2019/20. After 2020 the budget gaps become larger. Compared to a gross expenditure of approximately £40 million per annum, and historic performance of closing the gap, we assess the Council to have adequate arrangements, based on the known information as at the end of the financial year. We also reviewed the progress and the arrangements for reporting decision-making, financing and accounting treatment, and the reporting of the impact on the capital programme of a number of key projects: the Leisure Centre, the Local Authority Trading Company, and the bringing back in house of the Waste Contract. We identified no further VFM risks for 2016/17.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the audit threshold for audit of the Whole of Government Accounts (WGA) return. We issued our assurance statement to the NAO on the same date we issued our audit opinion. We had no issues to report.

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 2016/17 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

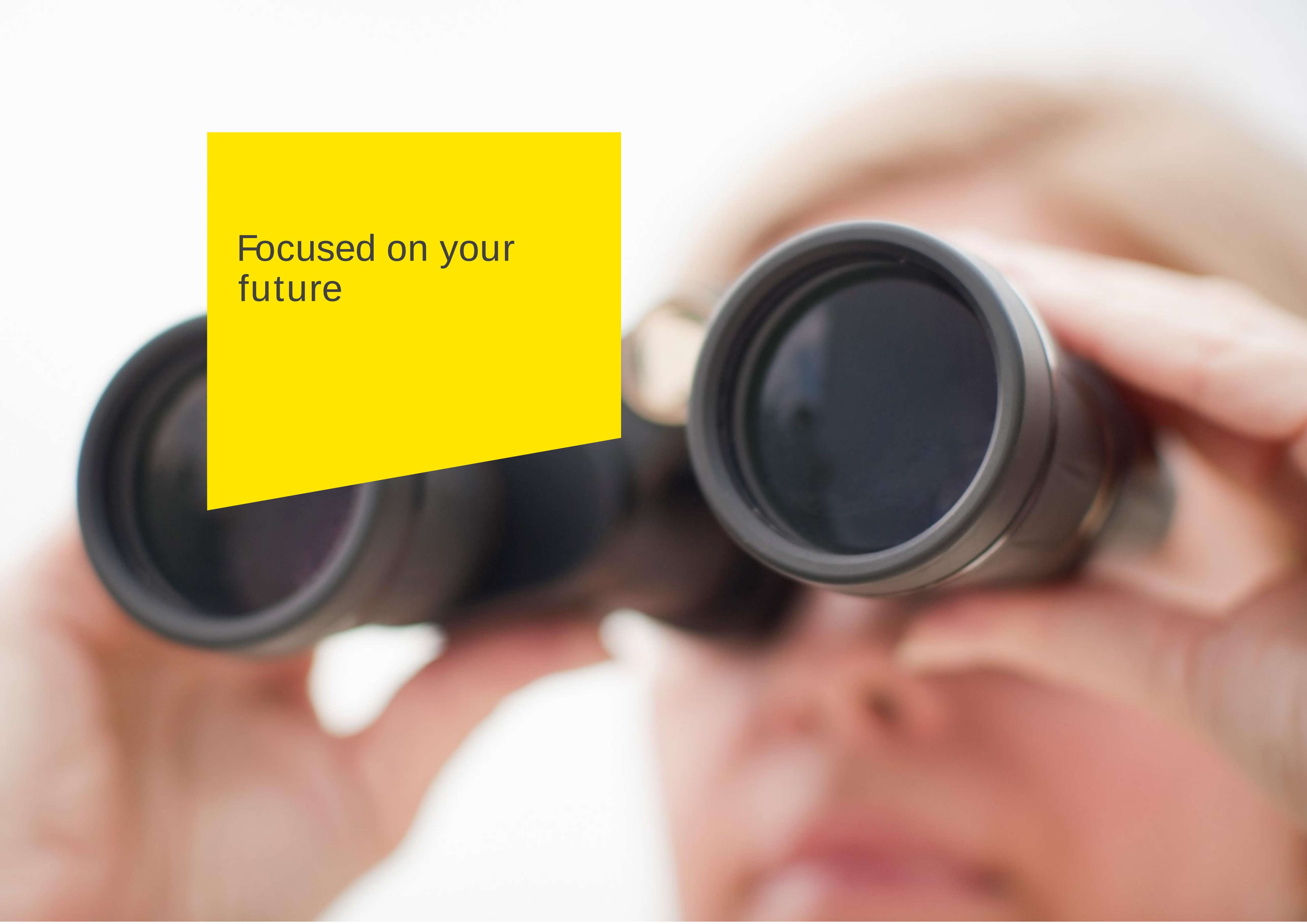
We communicated our assessment of independence in our Audit Results Report to the Resources and Finance Committee on 21 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

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

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

Our audit did not identify any significant deficiencies in controls to bring to the attention of the Resources and Finance Committee. We did identify a balancing item of £136,000 in the bank reconciliation that the finance team had not been able to resolve. Further work performed by the Council since has reduced the difference to £48,000.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Area	Issue	Impact
Earlier deadline for production and audit of the financial statements from 2017/18	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. As auditors, nationally we have: • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 Through working together, and reflecting on this year, there are a number of areas where the closedown and audit processes can be further improved going forward. We do not expect the formal earlier deadline to pose a significant issue for the Council.

Appendix A

Audit Fees

Appendix A Audit Fees

The scale fee is set by the PSAA and was reported in the Audit Plan that we presented to the Resources and Finance Committee meeting on 3 April 2017. We set out below the fees for the year ended 31 March 2017.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work (see note 1)	46,397	45,397	41,500	43,897
Total Audit Fee – Certification of claims and returns	TBC	15,632	15,632	12,004
Non-audit work (see note 2)	0	0	n/a	0

Note 1: Our actual fee is higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) due to additional work required to:

- audit the group accounts as set out in our audit plan (£3,897), which includes consideration of the loan treatment reported in our ISA260 report; and
- additional time spent at the start of the audit to resolve trial balance completeness issues highlighted through our analytics tool (£1,000)

We have agreed with the s151 officer an additional fee of £4,897 for this additional work. These additional fees are subject to agreement with PSAA.

Note 2: We confirm that we have undertaken no non-audit work outside the PSAA Code requirements.

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ED None

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