

AUDIT COMMITTEE	AGENDA ITEM No. 4
20 NOVEMBER 2017	PUBLIC REPORT

Report of:	Marion Kelly - Interim Corporate Director of Resources	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
Contact Officer(s):	Peter Carpenter - Service Director - Financial Services	Tel. 384564

ERNST & YOUNG LLP ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2017

R E C O M M E N D A T I O N S	
FROM: Marion Kelly - Interim Corporate Director of Resources	Deadline date: 20 November 2017
<p>It is recommended that Audit Committee:</p> <p>1. Note the Annual Audit Letter</p>	

1. ORIGIN OF REPORT

- 1.1 Annual Audit letter of Ernst Young LLP in accordance with The National Audit Office's 2015 Code of Audit Practice.

2. PURPOSE AND REASON FOR REPORT

- 2.1 This is a formal letter setting out the detailed findings already reported to 25 September 2017 Audit Committee.
- 2.2 This report is for the Audit Committee to consider under its Terms of Reference No.

This report is for the Audit Committee to consider under its Terms of Reference No. 2.2.1.5 To consider the external auditors annual letter, relevant reports, and the report to those charged with governance and 2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	n/a
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4. BACKGROUND AND KEY ISSUES

- 4.1 The Auditors tested whether management had the ability to override controls and therefore potentially perpetrate fraud. The Auditors did not identify any material weakness in controls or evidence of management override. (Page 9 of the letter.)

4.2 The Auditors tested revenue and expenditure recognition. The audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position. (Page 10 of the letter.)

4.3 Other areas tested and in which there were no significant audit findings were: (Page 10 and following of the letter.)

- Financial Statements presentation
- Property Valuations
- Pension Valuations and Disclosures
- The need to prepare Group Accounts

4.4 The Auditors also assessed the Council's VFM arrangements and commented: (Page 15 of the letter):

- The 2017/18 budget is balanced, through the use of efficiencies and income plans. The Council has identified savings totalling £20.7 million in 2017/18, and with planned use of the Grant Equalisation reserve of £7.2 million it has closed its budget gap which had stood at £27.9 million. The Council also has earmarked reserves (£33 million at 31 March 2017) which have been established for a number of purposes, including a Grant Equalisation Reserve and a Capacity Building Reserve. The existence of these reserves provides further evidence of the Council's prudent approach to financial management.
- Savings plans were properly managed and monitored and the Council's budget setting process was deemed to be robust, with sensibly prudent assumptions applied to uncertain income streams, risks related to reductions in government funding and future expenditure.
- Reserve levels are reflective of the challenges the Council faces and the Council has built up a level of reserves that it plans to use to assist the transformation.
- The Council recognises it faces unprecedented financial pressures and that a fundamental change is required to the way it operates in order to future-proof the Council's operations.

In agreeing a balanced budget for 2017/18 one-off resources of £19.7million were used, £7.2million of reserves and £12.5million of one-off capital receipts. The 2018/19 Medium Term Financial Strategy sets out the Council's future budget deficit and initial plans on how to close it.

4.5 The letter explains the arrangements for the faster closing timetable for 2017/18 accounts (page 20).

4.6 The Auditors are seeking an additional £2,500 to the £108,533 scale fee set by Public Sector Audit Appointments. It appears that auditing the EFA (page 22) could reasonably be assumed to be comprised in the scale fee; the EFA is now a core requirement. The audit working papers are substantially in the same form as last year's audit and they did not give rise to any additional fee last year. The Council will make appropriate representations to PSAA in respect of any increase sought.

5. ANTICIPATED OUTCOMES OR IMPACT

5.1 To note the Auditors' letter.

6. REASON FOR THE RECOMMENDATION

6.1 To note the report.

7. ALTERNATIVE OPTIONS CONSIDERED

7.1 None

8. IMPLICATIONS

Financial Implications

8.1 The cost of audit is already budgeted, but not any additional fee.

Legal Implications

8.2 None.

Equalities Implications

8.3 None.

9. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

9.1 The Accounts and Audit Regulations 2015

10. APPENDICES

10.1 App A - 2016/17 Annual Audit Letter

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