

CABINET	AGENDA ITEM No. 6
9 FEBRUARY 2018	PUBLIC REPORT

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

ERNST AND 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: 9 February 2018
It is recommended that Cabinet note the Annual Audit Letter.	

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 already considered by 20 November 2017 Audit Committee.
- 2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.11, 'To scrutinise auditor's reports and letters, to consider reports from the Council's external auditor and internal auditor, where appropriate, and determine appropriate responses.'

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.

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. CONSULTATION

5.1 The Audit Committee received a report in relation to Annual Audit letter of Ernst Young LLP in accordance with The National Audit Office's 2015 Code of Audit Practice.

5.2 The purpose of the report was to present the formal letter setting out the detailed findings already reported to 25 September 2017, Audit Committee. The Service Director Financial Services introduced the report and requested the Committee to note the Annual Audit Letter.

5.3 The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The grant equalisation reserve would be used to balance the 2017/18 budget. The Council's plans for 2019/2020 were not to rely on grant budgets.
- The statement of accounts restatement outlined in page 24 of the report had been in relation to a new format requirement for all Councils. The new format had been intended to provide a more user friendly approach for the general public. None of the figures that had been restated, had changed.

5.4 The Audit Committee considered and unanimously resolved to note the report.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 That the Auditor's letter is accepted and that the Council works constructively with the Auditors towards the 2017/18 Audit.

7. REASON FOR THE RECOMMENDATION

7.1 The Cabinet must consider the Auditor's letter in accordance with the Audit Code of Practice and to take action on any key findings. The Cabinet can also raise any issues they wish to discuss with the Auditors.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None.

9. IMPLICATIONS

Financial Implications

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

Legal Implications

9.2 None.

Equalities Implications

9.3 None.

10. BACKGROUND DOCUMENTS

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

10.1 The Accounts and Audit Regulations 2015

11. APPENDICES

11.1 Appendix A - 2016/17 Annual Audit Letter

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