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| <b>AUDIT COMMITTEE</b>   | <b>AGENDA ITEM No. 5</b> |
| <b>24 SEPTEMBER 2018</b> | <b>PUBLIC REPORT</b>     |

|                                |  |             |
|--------------------------------|--|-------------|
| Report of:                     | Peter Carpenter - Acting Director of Corporate Resources |             |
| Cabinet Member(s) responsible: | Cllr Seaton - Resources                                  |             |
| Contact Officer(s):            | Peter Carpenter - Acting Director of Corporate Resources | Tel. 384564 |

**ERNST & YOUNG LLP ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018**

| R E C O M M E N D A T I O N S   |                           |
|---|---------------------------|
| <b>FROM:</b> Peter Carpenter - Acting Director of Corporate Resources                 | <b>Deadline date:</b> N/A |
| <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 the Council's external auditors Ernst Young LLP (EY) 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 in the Audit Results Report (ISA260) to 16 July 2018 Audit Committee, updated 31 July 2018 following the conclusion of the audit.

2.2 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? | <b>NO</b> | If yes, date for Cabinet meeting | n/a |
|---|-----------|----------------------------------|-----|

**4. BACKGROUND AND KEY ISSUES**

4.1 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 9 of the Annual Audit Letter.)

4.2 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 10 of the Annual Audit Letter.)

- 4.3 The report considers two other key areas that were tested, the valuation of Property, Plant and Equipment (PPE), and Pension Liability Valuation (page 11 of the Annual Audit Letter). When the accounts and draft audit results report were presented at 16 July Audit Committee by EY, audit work to agree these two areas was still outstanding. The two areas of audit work were successfully resolved and the final 2017/18 Statement of Accounts were signed by EY and published on the Council's website by the statutory deadline, alongside an updated Audit Results Report. The changes are summarised in the audit letter and, more fully, on page 23 of the audit results report. There was no impact on Usable Reserves.

Delegated authority was given to the Chair to sign off the Council's Statement of Accounts on behalf of the Committee, and a revised set of accounts was signed by the Chair on 27 July. Further non material changes were required after this, however the auditors did not require the accounts to be re-certified.

- 4.4 The Auditors also assessed the Council's Value For Money (VFM) arrangements (page 14 of the Annual Audit Letter). EY provide an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. However, they highlight risks around the Council's long term financial resilience due to national and local pressures. The Council is continuing to work to review its financial strategy and notes that the size of the budget gap presents a significant challenge. Work is ongoing to ensure that future year pressures have been fully identified, as well as identifying actions for Members to consider to close what is a considerable gap, particularly in the next financial year.

- 4.5 The letter outlines some changes to accounting standards which will be introduced for the 2018/19 accounts and some changes currently being consulted on for introduction to the 2019/20 accounts (pages 19-20 of the Annual Audit Letter). Management will report to a future Audit Committee on the impact to the Council of these new standards.

- 4.6 Audit Fees of £6,750 have been agreed with EY over and above the £108,533 scale fee set by Public Sector Audit Appointments. This mainly relates to additional work undertaken to resolve the PPE Valuation work (see 4.3) in order to enable the accounts to be signed off within the deadline.

## **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, including an estimate for additional fees were accounted for in 2017/18 accounts.

### **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 - 2018/19 Annual Audit Letter

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