

AUDIT COMMITTEE	AGENDA ITEM No. 4
16 SEPTEMBER 2019	PUBLIC REPORT

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

ERNST & YOUNG LLP ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2019

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter - Acting Director of Corporate Resources	Deadline date: 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 15 July 2019 Audit Committee, updated 31 July 2019 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?	NO	If yes, date for Cabinet meeting	n/a
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4. BACKGROUND AND KEY ISSUES

4.1 The Auditors identified five areas of significant risk that were to be included in their Annual Audit Plan for 2018/19 and included a further two once the Audit had begun. These are all explained in more detail below. (See page 9 and 10 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 9 of the Annual Audit Letter.)
- 4.3 The report considers three key areas that were tested, the valuation of Depreciated Replacement Cost (DRC) Property, Plant and Equipment (PPE), and PFI Accounting and the MRP Accounting (page 9 of the Annual Audit Letter) and no significant issues were raised.

When the accounts and draft audit results report were presented at 15 July Audit Committee by EY, two further areas of the accounts were still to be finalised with the auditors. This was the impact of the recent McCloud ruling and the amendments required to the Property, Plant and Equipment (PPE) note. These were finalised and the accounts were amended accordingly. The final 2018/19 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 10 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 24 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 13 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 were introduced for the 2018/19 accounts and a major change being introduced to the 2020/21 accounts (pages 19 of the Annual Audit Letter). Management will report to a future Audit Committee on the impact to the Council of this new standard.
- 4.6 The Public Sector Audit Appointments set the Audit Fees of £83,570 for the year 2018/19 but an additional amount of £22,745 is being requested from EY and is yet to be agreed by the council and PSAA.

The Council's Corporate Finance team will work hard with EY to investigate if amendments to the approach taken in the production of working papers could provide additional assurance that would contribute to mitigating the amount of detailed testing EY perform and thus help reduce the fees charge by EY.

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 2018/19 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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