



Performance and Audit Scrutiny Committee 24 September 2014

Ernst and Young presentation of 2013/14 ISA 260 Annual Governance Report to those charged with Governance

1. Summary and reasons for recommendations

- 1.1 The attached report (**attachment 1**) presents the results of Ernst and Young's audit of the financial statements for 2013/14 – their second year as the Council's appointed external auditor. It sets out issues they are formally required to report on, to those charged with governance, under the Audit Commission Code of Audit Practice and International Standards on Auditing (UK & Ireland) (ISA (UK&I)) 260. It also includes the result of the work that Ernst and Young have undertaken to assess the Council's arrangements to secure value for money in the use of its resources.
- 1.2 This committee is now charged with governance in accordance with powers delegated to it under the Council's Constitution (as approved by full Council on 18 June 2013 – reports E30 and D358 refer).
- 1.3 The Council's unaudited 2013/14 statement of accounts, signed by the Council's Chief Financial Officer (Section 151 Officer) on 30 June 2014, have been updated to reflect adjustments recommended by External Audit from their audit work. It should be noted by Members that these adjustments are all immaterial to the overall financial position of the Council and are, in most cases, merely presentational changes.

2. Recommendations

- 2.1 That the Committee **NOTES** that the:
 - auditor intends to issue an unqualified opinion on the **Financial Statements** for 2013/14 (**page 3 of Attachment 1**); and
 - auditor intends to issue a **VFM conclusion** stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in our use of resources (**page 3 of Attachment 1**).

2.2 That the Committee **APPROVES** the:

- Letter of Representation at **Attachment 2**, on behalf of the Council, before the Audit Director issues his opinion and conclusion.

3. How will the recommendations help us meet our strategic priorities?

3.1 The work completed by external audit, as part of the statement of accounts audit, includes consideration by the Audit Director on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

3.2 This value for money conclusion takes into account whether the Authority has proper arrangements for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.

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Attachments

Attachment 1 - Audit Results Report – ISA (UK & Ireland) 260

Attachment 2 - Letter of Representation

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St Edmundsbury Borough Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

12 September 2014



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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 12 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit work raised a number of queries which resulted in amendments to the accounts. These were mainly classification adjustments which have all been agreed and amended by officers. We therefore have few matters to bring to your attention although we have still to fully complete work in a number of areas.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>1. As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For district council's the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; We reviewed accounting estimates for evidence of management bias; We evaluated the business rationale for any significant unusual transactions; and We reviewed capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised. 	<ul style="list-style-type: none"> We did not identify any material instances of fraud or error.
<p>2. There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Council's may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<ul style="list-style-type: none"> We reviewed the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice; and We reviewed the Councils provision for business rate appeals to ensure it was calculated on a reasonable basis in line with IAS37. We ensured the provision was supported by appropriate evidence and that the level of estimation uncertainty was adequately disclosed in the accounts. 	<ul style="list-style-type: none"> Our audit work confirmed that the accounting treatment adopted by the Council for business rates was appropriate and in compliance with the CIPFA Code of Practice. The business rates appeals provision accounted for by the Council was deemed to have been calculated on a reasonable basis in line with the requirements of IAS 37. The Council have amended their accounts to provide additional disclosure on the level of estimation and uncertainty with this provision, in particularly providing an estimate on what a "worst case" provision may be for the whole rateable value population, taking account of appeals not lodged.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks) continued		
3. Our planning work has identified that the Council is changing its general ledger system from CeDAR E5 to Agresso to align itself with Forest Heath District Council as part of the Council's continued commitment to joint working and sharing key financial systems and processes. This presents a risk in terms of the completeness and accuracy of data transfer between the two systems.	<ul style="list-style-type: none">• We utilised the work of internal audit as much as possible;• We reviewed the integrity of the transfer of general ledger data from the CeDAR E5 system to Agresso; and• We performed additional early work on the relevant systems and key processes.	<ul style="list-style-type: none">• Our review of the work of Internal Audit, as well as our own work on the general ledger system did not raise any issues over the completeness and integrity of the data transferred to the new system.

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme are in progress, but remain to be completed. We will provide an update of progress at the Performance and Audit Scrutiny Committee meeting:
 - ▶ Aspects of disclosure notes
 - ▶ Completion of debtors testing
 - ▶ Payables
 - ▶ Collection fund
 - ▶ Payroll disclosures
 - ▶ Whole of Government Accounts (WGA)
 - ▶ Receipt of a Letter of Representation
 - ▶ Director final review of audit work and financial statements

- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

- ▶ There were no errors within the draft financial statements, which management have chosen not to adjust.

Corrected Misstatements

- ▶ Our audit identified several errors which the audit team have highlighted to management for amendment. All of these have been adjusted during the course of our work.

- ▶ We bring to your attention one amendment which is considered significant. This relates to £4.5 million which was reclassified from cash and cash equivalents to short term investments.

Other Matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest,

We have no matters we wish to report.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have performed a substantive audit approach this year, and have therefore not tested the controls of the Council. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which we do not currently have sufficient audit evidence. There were no additional specific representations required other than the standard representations.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters that arise to the Audit and Governance Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that St Edmundsbury Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have completed our work and plan to issue an unqualified value for money conclusion in relation to the Council's financial resilience. We do have some issues to report to those charged with Governance, as set out on the next page of this report.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have no issues to report in relation to this criteria

Arrangements to secure economy, efficiency and effectiveness (continued)

Financial resilience

Along with many other Council's, St Edmundsbury is facing significant financial challenges over the next three to four years.

The Council's external funding sources are reducing and are subject to change and uncertainty in future years. Some of the main areas of uncertainty relate to:

- ▶ Future levels of business rates income
- ▶ Future funding through the New Homes Bonus
- ▶ Level of Government funding through the Revenue Support Grant (RSG) and Baseline Funding (business rates)

The Council is acutely aware of the challenges it faces and is continually at looking at ways in which services can be provided more efficiently and effectively over the coming years. Officers are also considering how the Council can generate income by operating on a more commercial basis.

The Council has a good track record of delivering savings and meeting its budget and good progress has already been made on identifying savings to bridge the budget gap of around £1.5 million in 2015-16.

The Council's financial forecasts that have been reported to Members make clear the scale of the challenge being faced. Some of the key issues reported include:

- ▶ The Council has a cumulative budget gap of around £3.9 million over the next 4 years (to 2017-18) which will need to be bridged through savings and efficiencies or increased income.
- ▶ Over the past four successive years, St Edmundsbury has frozen its council tax in recognition of the difficult times faced by many of the Council's residents.

In light of the future financial pressures the Council is facing, Members need to consider carefully the impact of any decisions to freeze or reduce council tax or use reserves to support the Council's finances, on the ongoing sustainability of the Council's financial position and its ability to maintain service levels in future years.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated April 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Performance and Audit Scrutiny Committee on 24 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Performance and Audit Scrutiny Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of April 2014.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee – Code work	57,456	57,456	Final fee to be confirmed.
Certification of claims and returns	46,700	46,700	No change proposed, however claims work is still in progress.
Non-audit work	0	0	No non-audit work has taken place in 2013/14.

Independence and audit fees

- ▶ At present, our proposed final fee is in line with the scale fee. However, we have undertaken more work than anticipated in agreeing financial statement disclosures. We have also spent extra time in understanding the audit trail which supported the financial statements following the change in the general ledger and also tracking through all the amendments to the draft accounts, either from our audit work or those subsequently identified from the Council.
- ▶ We will need to consider the impact of this extra work on our final audit fee when we complete our work. Should we need to vary the final fee, we will discuss this with the Chief Financial Officer and report any variations to the Performance and Audit Scrutiny Committee.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report 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.



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St Edmundsbury Borough Council - Audit for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of St Edmundsbury Borough Council ('the Council') for the year ended 31 March 2014. We recognise that obtaining representations concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of St Edmundsbury Borough Council as of 31 March 2014 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify – nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves.

I confirm that all material transactions have been recorded in the accounting records and are reflected in the financial statements and that the Responsible Officer has reviewed the accounts along with written assurances relating to the accounts and have approved the accounts for issue.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

I have made available all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements and the financial statements include, such disclosures, if any, relating to going concern to the Authority and to the Group.

Internal Control

I believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed and are appropriately reflected in the financial statements.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I have recorded and / or disclosed, as appropriate, all liabilities-related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that I have given to third parties.

Accounting estimates including fair values

I can confirm that the significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

I can confirm that in respect of accounting estimates recognised or disclosed in the financial statements:

- That I believe the measurement processes, including related assumptions and models, used in determining accounting estimates are appropriate and the application of these processes is consistent.
- That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- That the assumptions used in making accounting estimates appropriately reflects my intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

Segmental reporting

I can confirm that I have reviewed the operating segments reported internally to the Council and that I am satisfied that it is reporting in accordance with IFRS 8: Operating Segments.

Retirement Benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the

business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Related party transactions

I confirm that I have disclosed the identity of the Authority’s related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Use of the Work of an Expert

We agree with the findings of the experts engaged to evaluate non-current assets and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of St Edmundsbury Borough Council

I confirm that this letter has been discussed and agreed by the Performance and Audit Scrutiny Committee on 24th September 2014.

Signed

.....
Rachael Mann
Chief Financial Officer

.....
Cllr Sarah Broughton
Chairman of the Performance
and Audit Scrutiny
Committee

Date.....

Date.....