

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
16 February 2016

From: Executive Director and Deputy Chief Executive

Subject: **STATUTORY AUDITOR – ANNUAL AUDIT LETTER 2014/15**

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to present to Members the External Auditor's Annual Audit Letter on the 2014/15 Audit which is attached at Annex 'A'.
- 1.2 The Annual Audit Letter on the 2014/15 Audit summarises the conclusions and significant issues arising from the External Auditor's audit and inspection work for the financial year 2014/15. A member from Deloitte's will be in attendance to present the letter and answer questions.

2.0 DECISIONS SOUGHT:

- 2.1 Members are asked to consider the External Auditor's report and comment on it as appropriate.

3.0 RISK ANALYSIS:

- 3.1 There are no risks associated with consideration of this report. However, if this report was not considered the Committee would not be fulfilling its terms of reference and would not have the opportunity of commenting on the External Auditor's work in respect of 2014/15.

4.0 RECOMMENDATION:

- 4.1 It is recommended that Members receive the External Auditor's Annual Audit Letter on the 2014/15 Audit.

JUSTIN IVES

Background papers: None

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Hambleton District Council

**Draft annual audit letter to the Members of the
Council for the year ended 31 March 2015**

Contents

The big picture	2
Purpose and responsibilities	3
Financial reporting	4
Value for Money	5
Responsibility statement	6
Appendix 1: Independence and fees	7



The big picture

We are required to issue an annual audit letter to Hambleton District Council (the “Council”) following completion of our audit procedures for the year ended 31 March 2015. The letter is to be published on the Council’s website.

Below are the conclusions we have formed on the significant areas of the audit process.

The Council’s financial statements	We have issued an unqualified opinion on the Council’s financial statements for the year ended 31 March 2015.
Value for money conclusion	We have issued an unmodified conclusion on the Council’s arrangements for securing value for money for the year ended 31 March 2015.
Whole of Government Accounts return	We have met the National Audit Office reporting deadline of 2 October 2015, reporting that the consolidated return was below the reporting threshold.

1. Purpose and responsibilities

Purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Council as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that the Council has relevant safeguards and properly accounts for public money.

The Letter will be published on the Public Sector Audit Appointments Limited website at www.psa.co.uk and should also be published on the Council’s website.

Responsibilities of the appointed auditor and the Council

Responsibilities of the appointed auditor

We have been appointed as the Council’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities.

As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code). Under the Code, we review and report on:

- the Council’s financial statements; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) in respect of its local authority functions.

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

Responsibilities of the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

As part of our procedures we have considered how the Council has fulfilled these responsibilities.

2. Financial reporting

Key issues arising from the audit of the Council's financial statements

We have issued a separate report to the Audit, Governance and Standards Committee for the year ended 31 March 2015, which details the findings from our audit of the financial statements and the Council's value for money arrangements.

In that report we explained how we focused our work on areas which involve more complex accounting judgements and estimation. A summary of the significant risks identified as part of our audit is included below:

Significant audit risk	Conclusion
Grant income recognition	Grant income is a significant audit risk due to the requirement for management to consider each type of grant individually to consider appropriate treatment, and the associated judgement in relation to this. Our testing concluded that grant income recognition was appropriate.
Management override of controls	We have not identified any material weaknesses in controls or any evidence of management override. We have not identified any improper use of accounting estimates or judgements.
Revaluation of properties	Property valuation has been identified as a risk because of the size of the property balance in relation to the overall financial statements, and because any valuation is subject to estimates and assumptions. Our testing has concluded that the assumptions used in the valuation of the property portfolio are within an acceptable threshold.

We did not identify any significant issues arising from these areas and we consider management's judgements to be reasonable.

Key issues arising from the work performed on the Whole of Government Accounts return

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the Authority's whole of government accounts return if they are above the audit threshold. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

We reported to the National Audit Office on the WGA ahead of the October deadline. We reported that the Authority's WGA is below the audit threshold.

3. Value for Money

Background

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as “the VFM conclusion”.

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2015
The organisation has proper arrangements in place for securing financial resilience.	The organisation 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.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Financial Resilience

We have considered the financial standing of the Authority as at 31 March 2015 and reviewed how it prioritises its resources. We have assessed this based on current/on-going expenditure demands, expected income levels and the current cash position of the Authority. Following the Government's Comprehensive Spending Review in 2010 and subsequent local government finance settlements each year, the Authority is facing financial pressures over the next few years. In addition, the changes encompassed in the suite of new Acts – the Localism Act 2011, the Welfare Reform Act 2012 and the Local Government Finance Act 2012 - will put further strains on the planning and budgeting processes.

Whilst the Authority has coped well with previous government funding cuts, the anticipated future reductions in funding from 2015/16 onwards will be a significant challenge involving difficult decisions around resource prioritisation. Upon review of the medium term financial plan, we consider the response of the Authority to the financial pressures to be appropriate.

Audit work completed to address the significant risk

We draw sources of assurance relating to our VFM responsibilities from:

- the Council's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2015; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Procedures performed

In addition to the procedures specified above, specific information considered included the Head of Internal Audit annual report, Cabinet and Audit, Governance and Risk Committee papers, and the annual governance statement, as well as the results of our own audit procedures and the year end outturn reported by the Council in the draft financial statements.

Conclusion

We issued an unmodified value for money conclusion.

4. Purpose of our report and responsibility statement

What we report

Our report is designed to help the Council discharge its governance duties and includes:

- Results of our work on key audit judgements and our observations on the quality of your Financial Statements.
- Our value for money conclusion, based on work undertaken in response to our risk assessment and guidance issued by the Audit Commission in October 2014.
- Results of any other work undertaken in relation to our responsibilities and duties in line with the Audit Commission Act 1998 and Code of Audit Practice 2010.
- Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

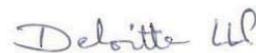
What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by Officers or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.
- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you previously.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

Chartered Accountants

Leeds

30 October 2015

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Appendix 1: Independence and fees

Independence confirmation We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Non-audit services In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships There are no other relationships with the Council and its known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

	Current year £'000	Prior year £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the Council's annual accounts, the value of money conclusion and return on the Whole of Government accounts	54	53
Fees payable for the certification of grants	15	15
Total fees payable in respect of our role as Appointed Auditor	69	68
Non audit fees		
Loan Review (Note 1)	15	0

Note 1: We performed a review of a proposed loan to a housing association and considered the financial standing of that organisation. We have considered the potential independence risks, including any potential risk in respect of a 'self-review threat' or 'management threat' and concluded that this work does not compromise our independence.

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