

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
24 October 2017

From: Director of Finance (s151 Officer)

Subject: **STATUTORY AUDITOR – ANNUAL AUDIT LETTER 2016/17**

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 2016/17 Audit which is attached at Annex 'A'.
- 1.2 The Annual Audit Letter on the 2016/17 Audit summarises the conclusions and any significant issues arising from the External Auditor's audit and inspection work for the financial year 2016/17. A member from EY will be in attendance to present the letter and answer questions.
- 1.3 At the Audit, Governance and Standards Committee on 25 July 2017, Ernst & Young LLP as part of their 2016/17 audit work commented on the Pay Policy in reference to redundancy payments. The paragraphs below clarify the position as to how the Pay Policy will be utilised in future.
- 1.4 With regards to 'approval of Severance payments in excess of £100,000', if this situation arises all cabinet reports will clearly set out the components of the relevant package, including salary paid in lieu, redundancy compensation, pension entitlements, holiday pay and any bonuses, fees or allowances to be paid.
- 1.5 For any future redundancy payments reported to Cabinet, the amount in the Cabinet report will be the amount that is paid out. If the amount reported to cabinet changes due to timing differences then a further report will be taken to Cabinet for approval.
- 1.6 There are no changes to the Pay Policy which is currently published.

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 2016/17.

4.0 RECOMMENDATION:

- 4.1 It is recommended that Members receive the External Auditor's Annual Audit Letter on the 2016/17 Audit.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 Officer)

Background papers: None

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Hambleton District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (“PSAA”) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between 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 “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (“the Code”) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

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 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the annual accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

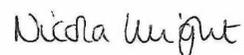
Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office ("NAO") on our review of the Council's Whole of Government Accounts return ("WGA")	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit	Our Audit Results Report was issued on 25 July 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 26 September 2017.

In December 2017, we plan to issue a report to those charged with governance of the Council summarising the certification work we have undertaken.



Nicola Wright
Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 25 July 2017 Audit, Governance and Standards Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 21 March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office ("NAO") on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million, therefore we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement ("AGS"). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 26 September 2017.

Our detailed findings were reported to the 25 July 2017 Audit, Governance and Standards Committee.

The key issues identified as part of our audit were as follows:

Significant Risks	Conclusion
<p>Revenue and expenditure recognition</p> <p>Under International Standard on Auditing (UK & Ireland) 240, there is a presumed risk that revenue may be misstated due to improper recognition. In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none">• We have reviewed and tested revenue and expenditure recognition policies as part of our review of accounting policies;• We reviewed and substantively tested accounting estimates for evidence of management bias, including;<ul style="list-style-type: none">○ Year-end accruals;○ Depreciation and impairment;○ Valuations; and○ Provisions;• We tested material expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified; and• We tested revenue and expenditure cut-off before and after 31 March 2017. <p>No significant issues have been identified as part of this work.</p>

Significant Risks (continued)	Conclusion
<p>Management override of controls</p> <p>As identified in International Standard on Auditing (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We have completed the following work in this area:</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 (as noted above relating to revenue and expenditure recognition); and • We evaluated the business rationale for any significant unusual transactions. <p>No significant issues have been identified as part of this work.</p>
Other Key Findings	Conclusion
<p>Annual Governance Statement</p>	<p>The draft Annual Governance Statement (“AGS”) should be published with the draft financial statements for inspection, in line with the requirements of the Accounts and Audit Regulations 2015. We noted that the draft AGS was not included within the draft financial statements published by the Council for inspection.</p>
<p>Exit packages</p>	<p>The Council agreed four exit packages during the year. We reviewed the process that was followed to approve these payments and noted the following areas for consideration:</p> <ul style="list-style-type: none"> • The Pay Policy requires severance payments to be reported to Cabinet and full Council by component (salary paid in lieu, redundancy compensation, pension entitlements, holiday pay and any bonuses, fees or allowances), however the reports we reviewed only included a total figure and not the components; and • The total figure reported in the papers approved by Council differed from the actual payment. Although we have been able to verify the reason for the differences, the Pay Policy is silent as to whether variances from the approved amount need to be reconsidered by Council (or if there is a threshold below which no further approval is needed).

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £920,000 (2015/16: £808,000), which is 2% of gross expenditure reported in the accounts. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit, Governance and Standards Committee that we would report to the Committee all audit differences in excess of £46,000 (2016: £40,000).

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

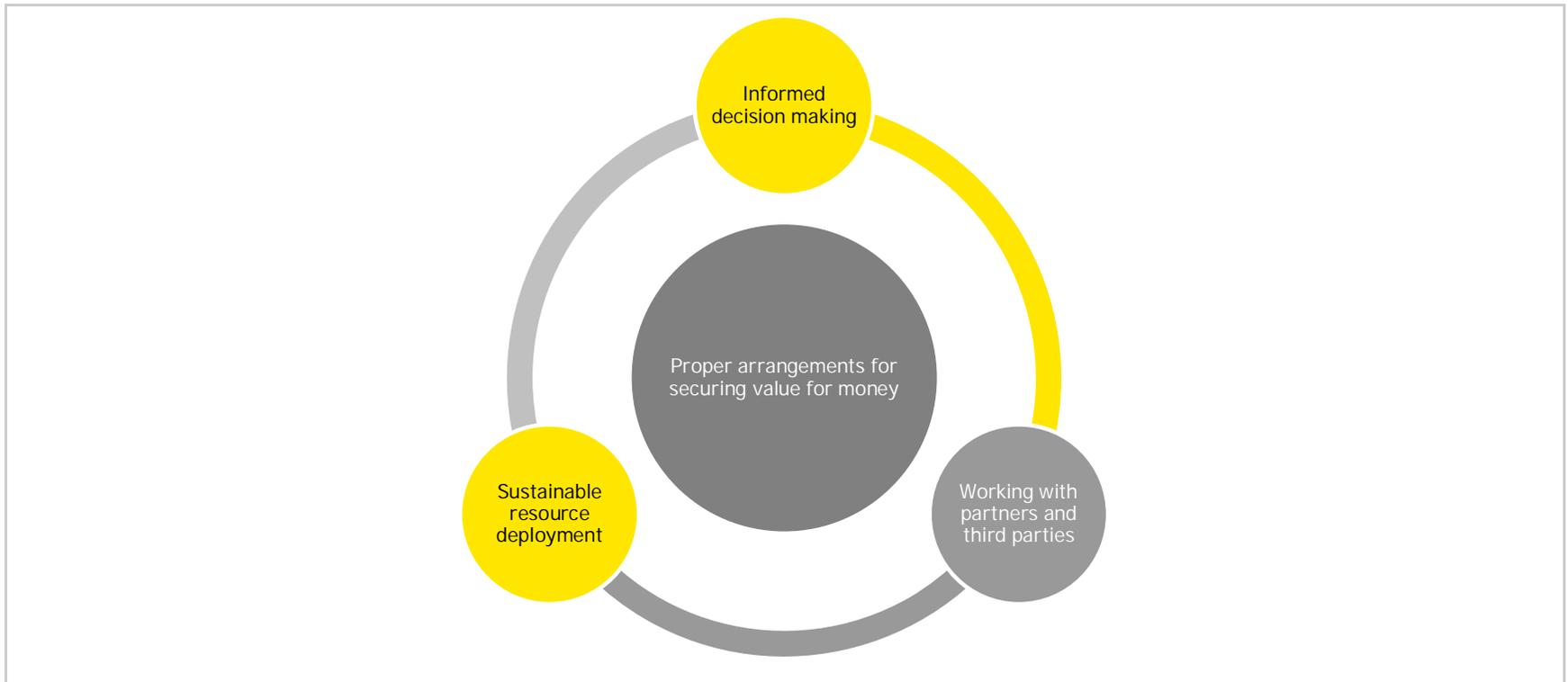
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 26 September 2017.



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

The Council is below the specified audit threshold of £350 million, therefore we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit, Governance and Standards Committee on 25 July 2017. In our professional judgement, the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any control issues to bring to the attention of the Audit, Governance and Standards Committee.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
Early Close	The main area for change in the Audit and Accounts Regulations 2015 is the requirement for Councils to approve and publish their accounts by 31 May and 31 July respectively (currently 30 June and 30 September).	<p>It is imperative that there is early dialogue between the Council and your audit team to agree a planned approach to support you in achieving the challenges of early close. This dialogue will result in new ways of working, which could include:</p> <ul style="list-style-type: none"> • Increased focus on data quality to minimise reworking and adjustments at year-end; • A clear understanding of what information will help your audit team complete their year-end audit visit, for example a detailed client assistant schedule; • Consideration of what areas of the final accounts process can be delivered early and can be audited before the year-end, for example property valuations, material provisions and accruals, group boundary assessments and accounting policies; • Review of the Council's accounting policies to assist the early close process, for example a de-minimis accruals policy; and • Consideration of 'soft closes' at key points during the year, for example month 6 and 9, to enable interim audits prior to year-end therefore spreading the work through the year and reducing the workload at year-end.

Appendix A

Audit Fees



Appendix A Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017. We confirm that we have undertaken non-audit work outside the PSAA Code requirements in relation to tax services relating to the redevelopment of the former prison site in Northallerton. Non-audit work is work not carried out under the Code. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

	Final Fee 2015/16 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2016/17 £
Total Audit Fee – Code Work	40,754	40,754	40,754	40,754
Non-audit work – Housing Benefit Subsidy Claim	11,286	11,228	11,228	TBC
Non-audit work – Tax Services	0	N/A	N/A	8,000

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ED None

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