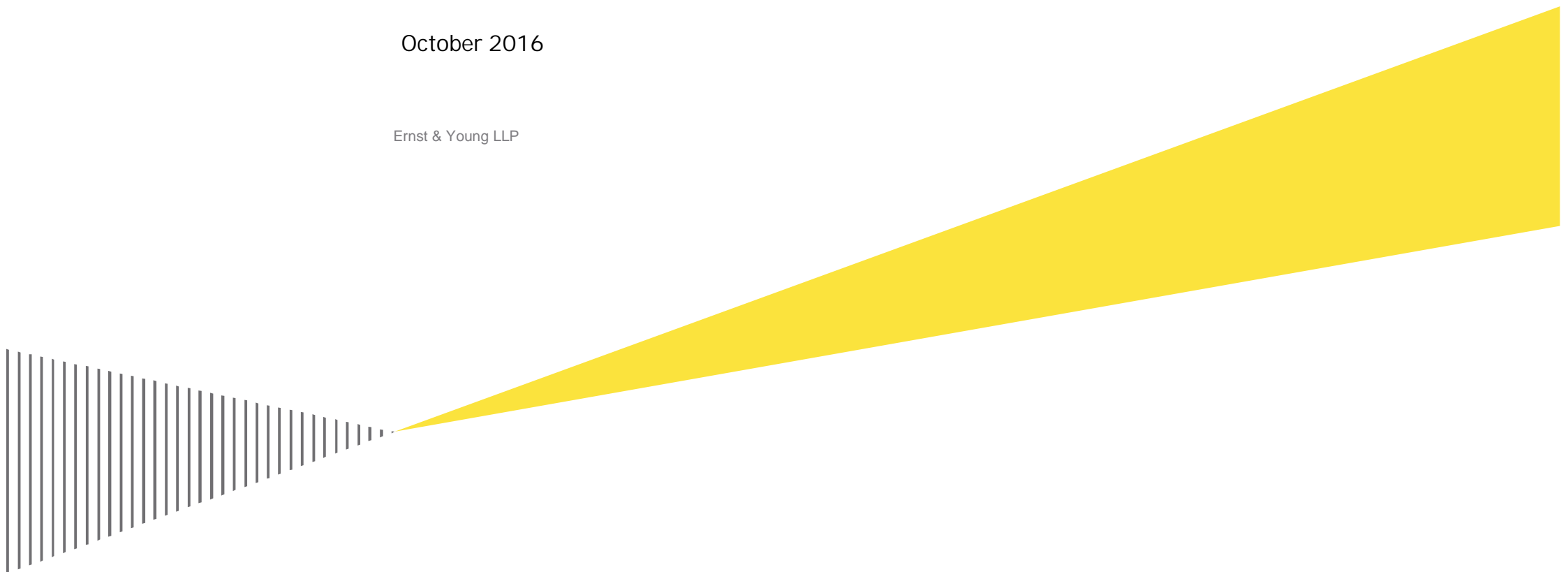


# Hambleton District Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015, Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.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 from 1 April 2015' 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 white cup, and a laptop. 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 2016.

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 at 31 March 2016 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 the annual governance statement	The annual 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).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 presented to the Audit, Governance and Standards Committee on 20 September 2016.
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 21 September 2016.

In December 2016, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken in relation to the housing benefit subsidy return.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Nicola Wright

Executive Director  
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 2015/16 Audit Results Report to the Audit, Governance and Standards Committee on 20 September 2016, 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 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2016 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 2015/16 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 extent of our review and the nature of our report are specified by the NAO.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an annual governance statement. In the annual governance statement, 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.

The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, a pen and some papers are visible. The overall lighting is bright and natural, suggesting a window in the background.

# 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 21 September 2016.

Our detailed findings were reported to the Audit, Governance and Standards Committee on 20 September 2016.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>In response to the risk of management override of controls we:</p> <ul style="list-style-type: none"><li>▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; and</li><li>▶ Reviewed accounting estimates for evidence of management bias.</li></ul> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>



Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue may be misstated due to improper recognition or manipulation.</p> <p>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 the manipulation of expenditure recognition.</p>	<p>In response to the risk of revenue and expenditure recognition we:</p> <ul style="list-style-type: none"> <li>▶ Reviewed and tested revenue and expenditure recognition policies;</li> <li>▶ Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;</li> <li>▶ Developed a testing strategy to test material revenue and expenditure streams, with a particular focus on the completeness of expenditure; and</li> <li>▶ Reviewed and tested revenue recognition and cut-off at the period end of grant income with specific conditions attached.</li> </ul> <p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.</p>
<p>Valuation of land and buildings</p> <p>Land and buildings is the most significant balance in the Council's Statement of Financial Position. The valuation of land and buildings is subject to a number of assumptions and judgements and even a small movement in these assumptions could have a material impact on the accounts.</p>	<p>In response to this risk we:</p> <ul style="list-style-type: none"> <li>▶ Reviewed the output of the Council's valuer;</li> <li>▶ Tested the assumptions used by the Council's valuer by reference to external evidence and the CIPFA code of practice on local authority accounting; and</li> <li>▶ Tested the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.</li> </ul> <p>Our work did not identify any indications of material misstatement in the valuation of land and buildings.</p>

A close-up, shallow depth-of-field photograph of a stack of old, worn coins. The coins are metallic and show signs of age, with some characters like 'M', 'C', 'Y', 'F', and 'L' visible on their edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money' in a black, sans-serif font.

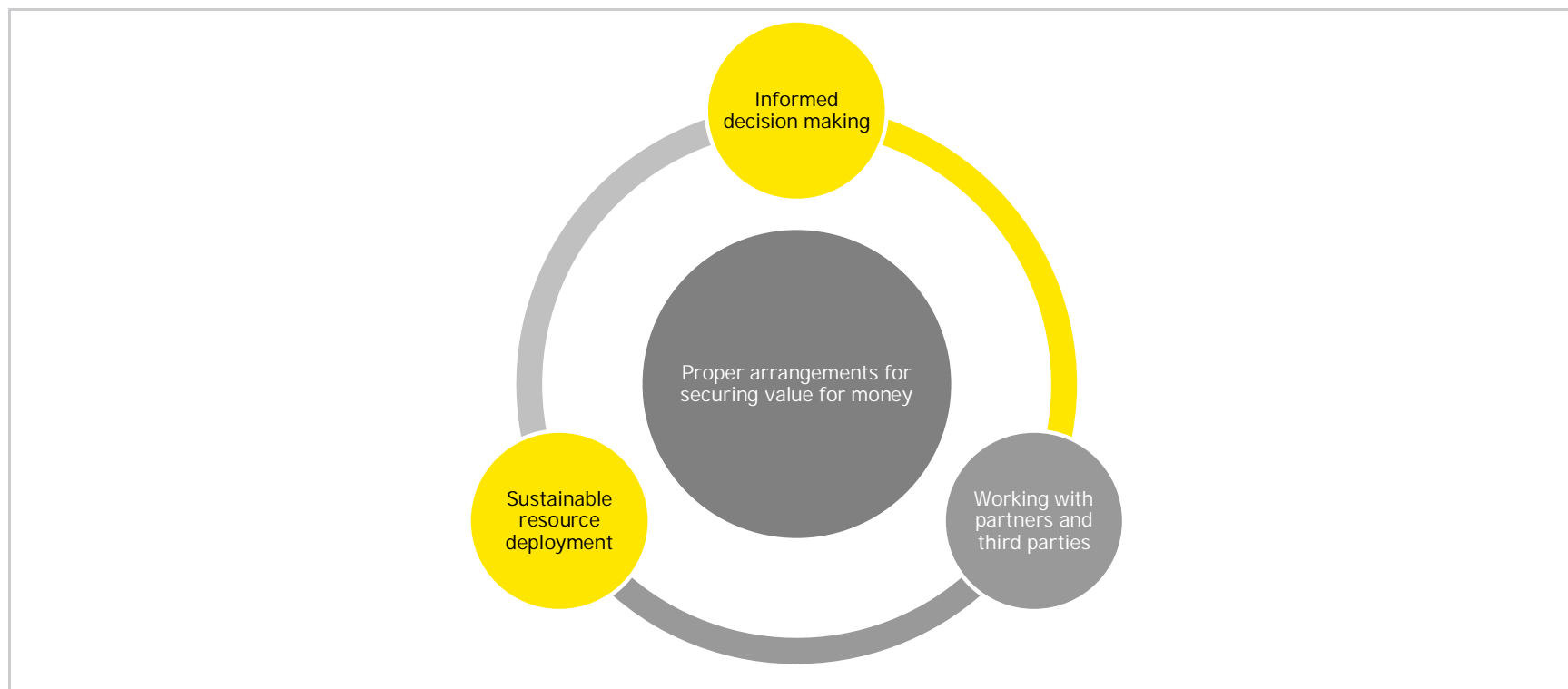
Value for Money

## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on 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 issued an unqualified value for money conclusion on 21 September 2016.

#### Key Findings

In undertaking our work on the Value for Money opinion we have considered the financial position of the Council and noted that:

- ▶ The financial strategy predicts a budget surplus in 2016/17 and 2017/18 with a relatively small budget gap of £0.2m forecast in 2018/19;
- ▶ A transfer of £0.5m was required from reserves in 2015/16 to fund the final outturn position compared to the original budget; and
- ▶ The total useable reserves at 31 March 2016 were £17.3m.

We also considered significant transactions undertaken by the Council in the year including the purchase of Northallerton prison and the loan to Broadacres Housing Association.

We did not identify any implications for our Value for Money opinion as part of this work.

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## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

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.

### Report in the Public Interest

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 2015/16 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 Committee on 20 September 2016. 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 regulatory and professional requirements.

## Control Themes and Observations

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

A close-up, shallow depth-of-field photograph of a person's hands holding binoculars. The person's face is blurred in the background, focusing attention on the binoculars and the text overlay. A bright yellow rectangular box is positioned 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
EU referendum	The decision of the UK to begin the process of leaving the EU has introduced a period of uncertainty for the UK and indeed Global economy. The Leave vote is likely to lead to a significant impact for the public sector as it will be this sector that has to deliver the implementation of the decision. We have had a change of Prime Minister and other changes to the cabinet as a result. This level of political change and uncertainty will potentially increase uncertainty both within the public sector and in the business world.	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the net economic impact of the vote to leave the EU results in further constraints on public sector spending which require more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will talk with you on the concerns and questions you may have and provide our insight at key points along the path.</p>

Appendix A

## Audit Fees



## Appendix A     Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our Audit Planning Report issued in January 2016.

Description	Final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	40,754	40,754
Total Audit Fee – Certification of claims and returns *	11,286	11,286

\* Our work on the certification of the housing benefit subsidy return is still underway but at the time of writing this report we do not anticipate any variation to the scale fee.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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