Broadland District Council

Annual Audit Letter for the year ended 31 March 2017

August 2017

Ernst & Young LLP
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.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 (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.
Executive Summary
Executive Summary

We are required to issue an annual audit letter to Broadland 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.

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion on the Council’s:</td>
<td></td>
</tr>
<tr>
<td>► Financial statements</td>
<td>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.</td>
</tr>
<tr>
<td>► Consistency of other information published with the financial statements</td>
<td>Other information published with the financial statements was consistent with the Statement of Accounts.</td>
</tr>
<tr>
<td>Concluding on the Council’s arrangements for securing economy, efficiency and effectiveness</td>
<td>We concluded that you have put in place proper arrangements to secure value for money in your use of resources.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports by exception:</td>
<td></td>
</tr>
<tr>
<td>► Consistency of Governance Statement</td>
<td>The Annual Governance Statement was consistent with our understanding of the Council.</td>
</tr>
<tr>
<td>► Public interest report</td>
<td>We had no matters to report in the public interest.</td>
</tr>
<tr>
<td>► Written recommendations to the Council, which should be copied to the Secretary of State</td>
<td>We had no matters to report.</td>
</tr>
<tr>
<td>► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014</td>
<td>We had no matters to report.</td>
</tr>
</tbody>
</table>
### 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 issued on 12 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 27 July 2017.

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

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

Mark Hodgson  
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 2016/17 Audit Results Report to the 27 July 2017 Audit 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 16 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 thy 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 you 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.
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 27 July 2017.

Our detailed findings were reported to the July 2017 Audit Committee.

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

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Conclusion</th>
</tr>
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<tbody>
<tr>
<td>Management override of controls</td>
<td>We did not identify any material weaknesses in controls or evidence of material management override.</td>
</tr>
<tr>
<td></td>
<td>We did not identify any instances of inappropriate judgements being applied.</td>
</tr>
<tr>
<td></td>
<td>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</td>
</tr>
</tbody>
</table>
Other Key Findings

Presentation of the financial statements
Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented.
The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement, and include the introduction of a new Expenditure and Funding Analysis note as a result of the ‘Telling the Story’ review of the presentation of local authority financial statements.
The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council’s segmental analysis.
This change in the Code will require a new structure for the primary statements, new notes and full retrospective restatement of comparatives. This restatement will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Assessment of the group boundary
The Council is entering into new contracts and partnerships in the delivery of services. The nature of these arrangements need to be assessed to determine whether they create functional bodies and other group entities which now fall within the group boundary and therefore require consolidating into the Council’s Financial Statements.

Conclusion
We proposed some minor disclosure amendments that management agreed to make in the financial statements.
In particular, we noted that the Expenditure & Funding Analysis (EFA), although positioned amongst them, is not a Primary Statement (consistent with the Code Guidance Notes). As such an additional narrative paragraph was added to the EFA to reflect this.
There were no other matters to report.

We concluded that Broadland Growth Ltd falls within the Council’s group boundary.
However, on the grounds of materiality (both qualitative and quantitative) consolidation was not required within the 2016/17 financial statements and therefore the preparation of group accounts was not required.
Other Key Findings

Property, plant and equipment valuations
Property, Plant and Equipment (PPE) represents a material item on the Council’s balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis. This is carried out by an expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Property, plant and equipment valuations

Conclusion
Following full consideration of their work, we placed reliance on the Council's valuer. We did not identify any material issues in relation to the valuations. However, a number of amendments were required to correct the accounting treatment reflected within the financial statements in relation to the ‘Carrowbreck’ development.
The Council retained the land, however it does not have ownership of the properties on this land. Therefore appropriate disclosures of the revaluation and disposal of this land were required with only the land relating to those properties which remain to be sold remaining in the balance sheet at the year-end.
There were no other matters to report.

Pensions valuations and disclosures
The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.
The Council’s current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council’s Balance Sheet.
The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Norfolk Pension Fund.
As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund deficits.

Pensions valuations and disclosures

Conclusion
Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable.
The sensitivities surrounding these assumptions have been correctly disclosed in Note 9 to the financial statements.
No issues were identified in completing our work.
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.

<table>
<thead>
<tr>
<th>Item</th>
<th>Thresholds applied</th>
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<tbody>
<tr>
<td>Planning materiality</td>
<td>We determined planning materiality to be £0.94 million (2016: £1.0 million), which is 2% of gross revenue expenditure on services reported in the accounts of £41.3 million. We consider gross revenue expenditure on services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</td>
</tr>
<tr>
<td>Reporting threshold</td>
<td>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £46,800 (2016: £50,300).</td>
</tr>
</tbody>
</table>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures - reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions, members’ allowances and exit packages - reduced materiality level applied equal to the reporting threshold.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.
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 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 27 July 2017.
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 2016/17 financial statements from member 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 27 July 2017. 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

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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.
Focused on your future
Focused on your future

<table>
<thead>
<tr>
<th>Area</th>
<th>Issue</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earlier deadline for production and audit of the financial statements from 2017/18</td>
<td>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</td>
<td>These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Council has reviewed and amended the closedown process over the last two years to achieve draft accounts production by 31 May for 2016/17. We issued our audit report by the 31 July 2017. Reflecting on this year, there are a number of areas where the Council can improve its closedown processes. However, we do not expect the formal earlier deadline to pose a significant issue for the Council.</td>
</tr>
</tbody>
</table>
Appendix A

Audit Fees
Appendix A  Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 12 July 2017 Audit Results Report.

<table>
<thead>
<tr>
<th>Description</th>
<th>Final Fee 2016/17 £'s</th>
<th>Planned Fee 2016/17 £'s</th>
<th>Scale Fee 2016/17 £'s</th>
<th>Final Fee 2015/16 £'s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Audit Fee - Code work</td>
<td>41,587</td>
<td>41,587</td>
<td>41,587</td>
<td>43,263</td>
</tr>
<tr>
<td>Total Audit Fee - Certification of claims and returns</td>
<td>TBC - Note 1</td>
<td>15,495</td>
<td>15,495</td>
<td>11,022</td>
</tr>
</tbody>
</table>

Note 1 - Our planned fee for the certification of claims and returns is based on the indicative scale fee set by the PSAA. The final fee will be reported to you in our annual certification report, upon completion of this work.

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