

Annual Governance Report 2014/15
Report by Head of Finance

Summary: This report appends the Annual Governance Report for 2014/15 prepared by the External Auditors, Ernst & Young.

Recommendations:

- (i) That the Annual Governance Report 2014/15 be noted.
- (ii) That the Letter of Representation in connection with the Audit of the Financial Statements for 2014/15 be signed by the Treasurer and Financial Adviser and the Chairman of the FSAC.

1 Annual Governance Report 2014/15

- 1.1 The External Audit of the Authority's 2014/15 Statement of Accounts is underway and the interim Annual Governance Report by Ernst & Young for 2014/15 is appended.
- 1.2 The External Auditors will be attending the meeting to present this item and answer any questions. A verbal report will be made at the meeting to provide an update on the progress of any audit work outstanding at the date of preparation of this report.
- 1.3 Appendix 2 to this report is the draft Letter of Representation in connection with the Audit of the Financial Statements for 2014/15, which is presented for consideration and approval by the Committee in order for it to be signed and sent to the External Auditors.

Background papers: Statement of Accounts 2014/15
Annual Governance Statement 2014/15

Author: Emma Krelle
Date of report: 14 September 2015

Broads Plan Objectives: None

Appendices: APPENDIX 1 – Annual Governance Report 2014/14
APPENDIX 2 – Draft Letter of Representation 2014/15

The Broads Authority

Financial Scrutiny and Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

14 September 2015



Building a better
working world

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Section 1

Executive summary

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 – the Financial Scrutiny and Audit Committee – 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 2014/2015 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 14 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the matters we have to communicate, that the Authority has prepared its financial statements adequately.

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 have not reported any significant matters 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.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Authority's responsibilities

- ▶ The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority 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 Authority 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 2014/2015 financial statements and the consistency of information included in the foreword
 - ▶ Report on an exception basis on the Annual Governance Statement
 - ▶ Consider and report any matters that prevent us being satisfied that the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

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

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Authority..

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

Section 3

Addressing audit risks

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.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements. Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.	<ul style="list-style-type: none">• Made enquiries of management about risks of fraud and the controls put in place to address those risks;• Gained an understanding of the oversight given by those charged with governance of management's processes over fraud;• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;• Reviewed accounting estimates for pensions and asset valuations for evidence of management bias; and• Evaluated the business rationale for any significant unusual transactions.	We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Financial Scrutiny and Audit Committee meeting:
 - ▶ Movement in Reserves Statement
 - ▶ Final review and completion procedures
 - ▶ Receipt of a Letter of Representation
- ▶ 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 has chosen not to adjust.

Corrected misstatements

- ▶ Our audit identified a number of disclosure misstatements which our team have highlighted to management for amendment.
- ▶ We do not consider any of these to be significant and therefore we have not provided further details of these corrected misstatements.

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 Authority'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;
 - ▶ 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 – application of materiality

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		Amount (£k)
Planning Materiality and Tolerable error	<p>We determined planning materiality to be £148,000 (2014: £169,000, which is 2% of gross expenditure reported in the accounts of £7.4 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p>	148
Reporting Threshold	We agreed with the Financial Scrutiny and Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £7,400 (2014: £8,400),	7.4

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the responsibility of the Authority 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 Authority 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 tested the controls of the Authority only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that; following amendment:
 - ▶ 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.

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 have concluded our work in this area and have no matters to raise to the Financial Scrutiny and Audit Committee.

Section 5

**Arrangements to
secure economy,
efficiency and
effectiveness**

Arrangements to secure economy, efficiency and effectiveness

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

As reported in my Audit Plan, the scope of my work on value for money at the Authority is limited to:

- ▶ Reviewing the Annual Governance Statement (AGS);
- ▶ Reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- ▶ Other risk-based work as suitable.

Addressing audit risks – other VFM risks

We identified the following 'other' VFM risks during the planning phase of our audit, and reported these to you in our Audit Plan. We did not consider that this was a significant risk in terms of our VFM conclusion at the time of issuing our audit report and this is still our view. Here, we set out how we have gained audit assurance over the issues.

Pressures from economic downturn

Financial resilience/Economy Efficiency and Effectiveness

To date the Authority has responded well to the financial pressure resulting from the continuing economic downturn and the level of uncertainty relating the National Parks Grant. The Authority is likely to face further cuts to the National Parks Grant in 2015/16 and in future years. The management team are exploring different scenarios to increase income and reduce expenditure.

To address this risk we reviewed:

- The adequacy of the Authority's budget setting process;
- The robustness of any assumptions;
- The effective use of scenario planning in budget setting;
- The effectiveness of in year monitoring against the budget; and
- The Authority's approach to prioritising resources.

The work undertaken was sufficient to support an unqualified VFM conclusion.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 10 February 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code 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 Financial Scrutiny and Audit Committee on 22 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Financial Scrutiny and Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan dated 10 February 2015.

Audit fees

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

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	13,943	13,943	Final fee to be confirmed.
Non-Audit work	0	0	No non-audit work has taken place in 2014/15.

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have **not** undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

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ED None

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)



Yare House 62 – 64 Thorpe Road
Norwich Norfolk NR1 1RY

tel 01603 610734

broads@broads-authority.gov.uk

www.broads-authority.gov.uk

Mr N Harris
Ernst & Young
One Cambridge Business Park
Cowley Road, Cambridge
CB4 0WZ

Date 22 September 2015

Our ref

Your ref

Dear Neil,

**Broads Authority
Audit of Financial Statements 2014/15
Letter of Representation**

This representation letter is provided in connection with your audit of the financial statements of the Broads Authority ("the Authority") for the year ended 31 March 2015. We recognise that obtaining representations from us 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 the Broads Authority as of 31 March 2015 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 2014/15.

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:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. We have approved the financial statements.

3. We confirm that the Responsible Officer has:
 - Reviewed the accounts;
 - Reviewed all relevant written assurances relating to the accounts; and
 - Made other enquiries as appropriate.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. We believe that the Authority 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.
6. There are no unadjusted audit differences, identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Authority 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 on the following date: 10 July 2015.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We 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 we have given to third parties.

F. Subsequent Events

1. Other than those events described in the financial statements, there have been no events subsequent to period end which require adjustment of, or disclosure in, the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates are appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Retirement benefits

1. 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.

I. Use of the Work of an Expert

1. 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.

J. Specific Representations

1. We do not require any specific representations in additions to those above.

Yours sincerely,

Chief Finance Officer

I confirm that this letter has been discussed and agreed at the Financial Scrutiny and Audit Committee on 22 September 2015.

Chairman of the Financial Scrutiny and Audit Committee