

# The Broads Authority

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



## Contents

Executive Summary .....	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit .....	10
Value for Money .....	13
Other Reporting Issues.....	16
Focused on your future.....	19
Appendix A     Audit Fees .....	20

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](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 (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 the Broads Authority (the Authority) 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 Authority's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority 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 Financial Statements.
Concluding on the Authority'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 Authority.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Authority, 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 Authority's Whole of Government Accounts return (WGA).	The Authority 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 Authority communicating significant findings resulting from our audit.	Our Audit Results Report was issued on the 10 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 28 July 2017

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

Kevin Suter

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 Authority.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 28 July 2017 Financial Scrutiny and 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 Authority.





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 24 January 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 Authority 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 Authority;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Authority, 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 Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Authority 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 Authority 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 potted plant with green leaves is visible. In the center, a yellow rectangular box contains the text 'Financial Statement Audit'. Below the box, there are papers with financial data, including a table with columns and rows of numbers, and a pen lying on the desk.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

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

We audited the Authority'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 28 July 2017.

Our detailed findings were reported to the 25 July 2017 Financial Scrutiny and Audit Committee.

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

Significant Risk	Conclusion
Management override As identified in ISA 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.	We did not identified any material weaknesses in controls or evidence of material management override.  We did not identified any instances of inappropriate judgements being applied.  We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



## 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 £158 thousand, which is 2% of Gross Expenditure reported in the accounts of £7,882 thousand.  We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.
Reporting threshold	We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £8 thousand.

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.

A close-up, shallow depth-of-field photograph of a stack of old, worn metal coins. The coins are stacked haphazardly, with some showing their edges and others their faces. The metal has a yellowish-brown patina, suggesting age. The edges of the coins are inscribed with various letters and symbols, including 'L', 'W', 'Y', 'F', 'I', 'M', 'C', and 'Y'. 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.

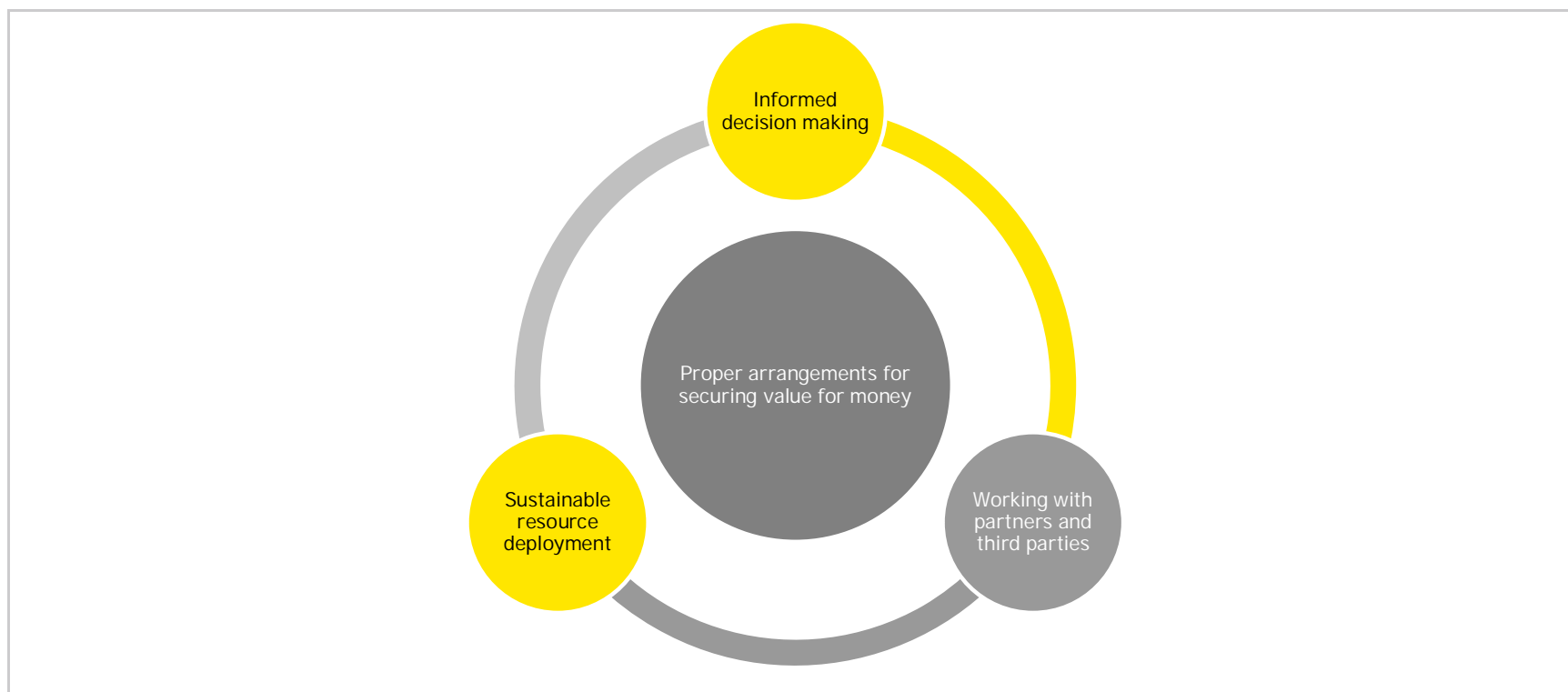
Value for Money

## Value for Money

We are required to consider whether the Authority 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 identified one significant risks in relation to these arrangements. The table below presents the findings of our work in response to this risk.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Authority'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 28 July 2017.

Significant Risk	Conclusion
<p>Medium term financial planning</p> <p>To date the Authority has responded well to financial pressures, continuing economic downturn and uncertainties of funding.</p> <p>However, the Authority have forecast a cumulative budget gap of £100k by 2019/20, there remains significant financial pressure on the Authority's budget and Medium Term Financial Strategy (MTFS) during the current and the coming years.</p> <p>Management have taken the view that medium term financial planning will involve the use of reserves to support any budget shortfall.</p>	<p>Our review of the 2016/17 outturn, the medium term financial plan and the budget setting process did not identified any issues with the Authority's response to the changes in funding and we assessed the arrangements put in place to be adequate.</p>





## 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 Authority for Whole of Government Accounts purposes. We had no issues to report.

The Authority 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 Authority'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 Authority 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 Authority 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 Financial Scrutiny and Audit Committee on 25 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. 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 adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Financial Scrutiny and Audit Committee.

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
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	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.	<p>The earlier deadline is already being achieved by the Authority, with a good set of quality accounts being prepared early. We would hope to bring the timetable forward where possible.</p> <p>We are looking for volunteering Authority's to commence the audit in May 2018 for which an initial high level discussion has indicated that this timeframe would be possible for the Broads.</p>
<i>Forthcoming changes to accounting standards:</i>	Revised accounting standards are expected to be applicable for local authority accounts from the 2018/19 (IFRS 9 and IFRS15) and 2019/20 financial year (IFRS 16).	Some initial thoughts on the approach to adopting IFRS 9 and IFRS 15 have been issued by CIPFA, but until the Code is issued and any statutory overrides are confirmed there remains some uncertainty.
<i>IFRS 9 Financial Instruments</i>	Transitional arrangements are included within the accounting standard, however as the 2018/19 and 2019/20 Accounting Code of Practice for Local Authorities have yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.	For IFRS 16, it is clear is that the Authority will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented
<i>IFRS 15 Revenue from Contracts with Customers</i>		
<i>IFRS 16 Leases</i>		

## Appendix A      Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 10 July 2017 Audit Results Report.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	13,943	13,943	13,943	13,943

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

EY | Assurance | Tax | Transactions | Advisory

## Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

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