

# 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



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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
<p>Significant audit risks (including fraud risks)</p> <p>ISA (UK&amp;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.</p>	<ul style="list-style-type: none"> <li>• Made enquiries of management about risks of fraud and the controls put in place to address those risks;</li> <li>• Gained an understanding of the oversight given by those charged with governance of management's processes over fraud;</li> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• Reviewed accounting estimates for pensions and asset valuations for evidence of management bias; and</li> <li>• Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing</p>



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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