

**External Audit**  
Report by Chief Financial Officer

**Summary:** This report appends:

- (i) the annual audit fee letter from Ernst & Young for undertaking the 2018/19 audit. The fee will be £10,736.
- (ii) the Local Government Audit Committee Briefing by Ernst & Young.

**Recommendation:**

- (i) That the details of the annual audit fee letter be noted.
- (ii) That the briefing, including the key questions for Audit Committees as set out on page 8, be noted.

**1 External Audit fee 2018/19**

1.1 This report appends Ernst & Young's 2018/19 audit fee letter (Appendix 1), setting out the audit fee which will be payable for undertaking the 2018/19 audit of the Authority's accounts and its financial, governance and value for money arrangements.

1.2 Members will note that the audit fee will be £10,736, which represents a decrease of £3,207 when compared with the audit fee charged for 2017/18 and 2016/17. The reduction in fee is a result of the Public Sector Audit Appointments Ltd (PSAA) procurement that appointed the Authority's auditors for the next five years (until 2022/23).

**2 Financial implications**

2.1 Provision for the annual audit fee was included in the 2017/18 budget and has been charged in the accounts for the year. The proposed External Audit fee for 2018/19 has similarly been provided for in the current year's budget.

**3 Briefing Key Issues**

3.1 This briefing is presented to Members "for information".

3.2 The items of relevance to the Authority are:

- The UK economy and Brexit (page 2);
- IFRS 15 (pages 4 and 5); and
- EU General Data Protection regulation (page 7)

Background papers: None

Author: Emma Krelle  
Date of report: 21 June 2018

Broads Plan Objectives: None

Appendices: APPENDIX 1 – Ernst & Young audit fee letter 2018/19  
APPENDIX 2 - Ernst & Young Local Government Audit  
Committee Briefing (March 2018)



Ernst & Young LLP  
One Cambridge Business Park  
Cambridge  
CB4 0WZ  
Tel: + 44 1223 394 400  
Fax: + 44 1223 394 401  
ey.com

John Packman  
Chief Executive  
Broads Authority  
Yare House  
62-64 Thorpe Road  
Norwich  
NR1 1RY

22 May 2018

Ref:

Direct line: 01223 394547

Email: MHodgson@uk.ey.com

Dear John

## Broads Authority – Annual Audit Fee Letter – 2018/19

We are writing to confirm the audit that we propose to undertake for the 2018/19 financial year at Broads Authority.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 apply for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) has appointed auditors for bodies that have opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23. Appointments for all bodies that had opted into the appointing person scheme before 31 December 2017 were confirmed, following consultation, in December 2017.

### Indicative audit fee

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees, PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees applicable for 2017/18.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.



For Broads Authority our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- We can rely on the work of internal audit as planned;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by Broads Authority;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee	10,736	13,943	

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

### Billing

The indicative audit fee will be billed in 4 quarterly instalments of 2,684.



### **Audit plan**

Our plan is expected to be in the January – March 2018 period. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with you and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

We are committed to providing you with a high quality service. 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, please contact me as your Engagement Lead. 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.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'M. Hodgson', written over a blue diagonal line that extends across the signature area.

Mark Hodgson  
Associate Partner  
For and on behalf of Ernst & Young LLP

cc. Emma Krelle, Director of Finance  
Louis Baugh, Chair of the Audit Committee

# Local Government Audit Committee Briefing



**EY**

Building a better  
working world



# Contents at a glance




---

---

---

---



This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

---

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.





# Government and economic news

## Will the UK economy hold up as Brexit nears?

The latest forecast from the EY Item Club highlights that UK GDP growth in 2017 was 1.8%, which was better than expected. However, it does compare unfavourably with 2017 GDP growth of 2.5% for the Eurozone, 2.3% for the US and an estimated 3.0% globally.

The momentum from 2017, an improving outlook for consumer spending, and the increased likelihood of a near-term Brexit transition arrangements are expected to support UK growth this year. With this, we have nudged up our UK GDP forecast for 2018 to 1.7%, up from the 1.4% we predicted in our Autumn forecast in October last year.

However, further out, the UK's limited productivity performance and ongoing Brexit and political uncertainties will see the UK achieve only mid-range growth. With this, we have slightly reduced our GDP growth projections for 2019 to 1.7% (down from 1.8%), 1.9% for 2020 (down from 2.0%), and 2.0% for 2021 (down from 2.2%). Although we have modestly downgraded our expectation of the UK's productivity performance, it remains more optimistic than the Office for Budget Responsibility's latest forecast. Specifically, we forecast output per hour to rise 0.9% in 2018 and then 1.3% annually during 2019-2021.

Much depends on how the Brexit negotiations develop.

The expectation is that the UK and EU will make sufficient progress to agree a transition arrangement lasting at least two years, from late March 2019. Since this will have to be ratified across the EU, agreement essentially needs to be reached by October 2018. Progress towards a transition deal in late 2018 should support business confidence and a gradual pick-up in investment, helping GDP growth accelerate.

## Provisional 2018-19 Local Government Finance Settlement

On 19th December 2017 the Government set out the provisional funding plan for the 2018-19 financial year, which will be the third year of the four year multi-year settlement that was accepted by 97% of local authorities. The main themes of the provisional settlement were:

**Council tax referendum principles** – as a result of the financial settlement consultation process the government has decided to set the core referendum principle at 3% in 2018-19 and 2019-20, to match the higher than expected inflation. This change will give local authorities more flexibility in deciding how money will be raised to offset the increasing financial pressures and demand on services. Shire district councils will be allowed an increase of 3% or £5 whichever is higher.

Continuation of the adult social care precept principle of a 2% increase, with the additional flexibility in 2018-19 to increase the precept by an additional 1%, from 2% to 3%, provided that the total increase across the three years 2017-18 to 2019-20 does not exceed 6%.

Analysis by the Local Government Association has estimated that the impact of increased flexibility in council tax precepts could be worth up to £540mn to local authorities by 2019-20. However local services are facing a total funding gap of £5.8bn in 2019-20. Therefore, the increased powers to raise council tax are not sufficient to meet the future funding gap.

**Business rate retention** – the Government's continued intention to reform local government financing in the future by allowing authorities to retain a greater percentage of business rates instead of receiving certain grants (including RSG, public health grant) direct from central government. By 2020-21 it is estimated that the business rate retention across the local government system would be 75%, compared to the current level of 50% retention. It was also announced that the 100% business rates retention pilot schemes were going to be expanded to include a further 10 local authorities.

**New homes bonus** – since inception the new home bonus has allocated £7bn to local authorities to encourage the building of over 1.2 million new homes. The Government has decided to continue to set the national baseline (below which no bonus will be paid) at 0.4% for 2018/19. The national baseline represents the annual growth of Band D properties within a local authority above which the new homes bonus will be awarded. Government retained the option to adjust the baseline in future years based on housing statistics as reported through council tax base figures. This stability will provide some security for district authorities who have based their growth strategy on the New Homes Bonus.

### **Carillion liquidation**

Major public sector building and support services contractor Carillion plc went into compulsory liquidation on 15 January 2018. Carillion's sudden collapse is being felt across the country as a range of public services, from road building to school meals, have been unexpectedly terminated in a number of local authorities.

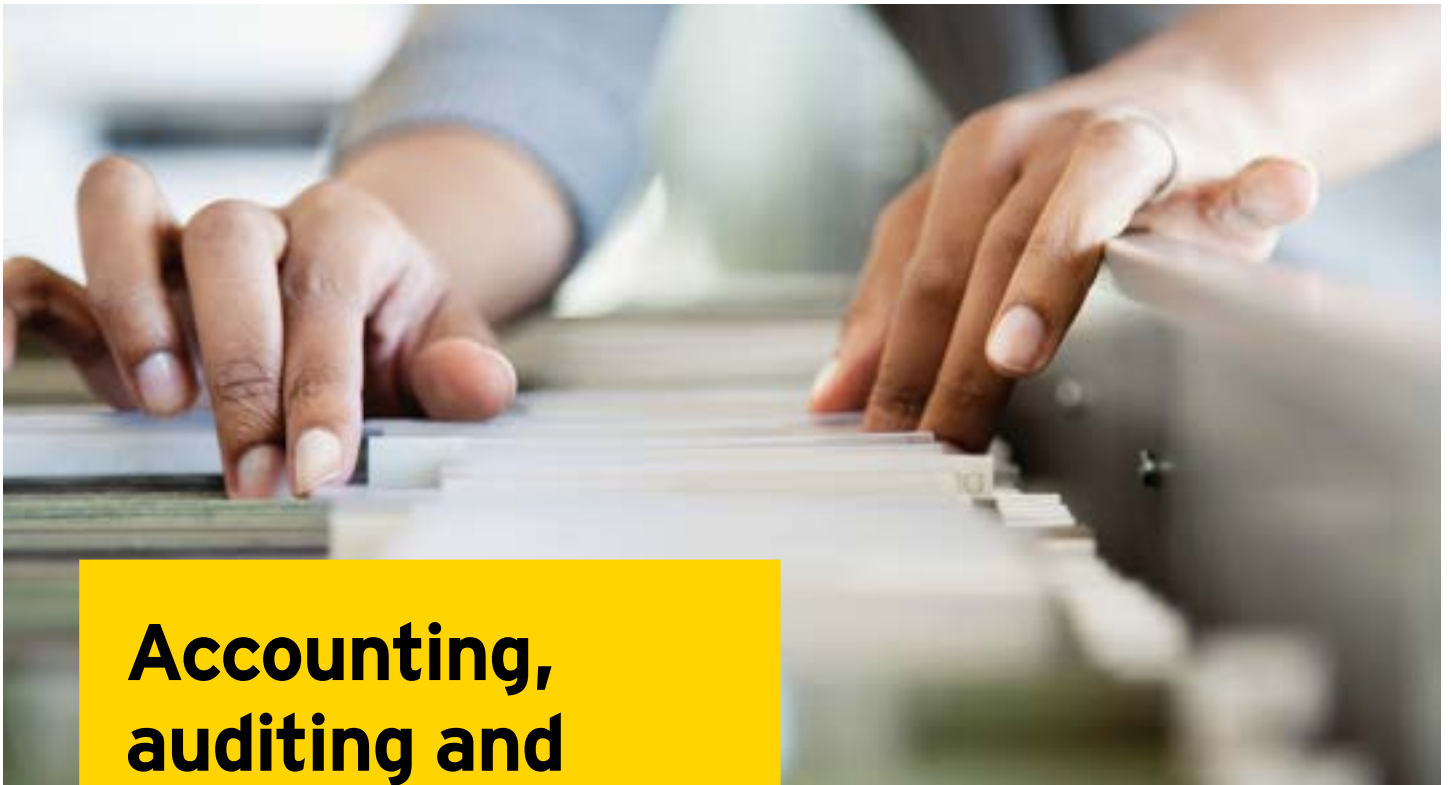
The full extent of the affected services is yet to be determined as local authorities discuss existing contracts with the Official Receiver. Local authorities are implementing contingency plans where possible, including either finding alternative contractors or taking services back in house. For example the response from Oxfordshire County Council in relation to the provision of school meals at 90 schools supplied by Carillion was to guarantee Carillion staff who worked in schools that the county council would ensure that they were paid.

Although the Government has pledged that public services 'will be protected' after Carillion's collapse, it is unclear how or when funding from central Government will be made available to the affected local authorities.

### **Public sector pay**

Since 2013, the Government has implemented a policy of a 1% annual pay increase cap for public sector workers; which was estimated to have saved approximately £5bn by 2019-20. In the Autumn Budget 2017 the Government confirmed the end of the 1% pay increase policy. Therefore from 2018-19, pay review bodies will be able to award pay increases of greater than 1% as they determine to be appropriate. After the long freeze in real terms of public sector pay future increases above 1% have been welcomed; and it is thought that this has been needed to retain talent within the public domain. However, this will be an additional cost pressure for local authorities that will require financing.

The national employers, who negotiate pay on behalf of 350 local authorities, suggested that most employees with salaries over £19,430 should receive a 2% increase for 2018-19 and a further 2% for 2019-20. Lower salaried workers will receive higher increases based on hourly pay; from £7.78 to £9.00 in April 2019 and increase equivalent to 15.65%. National employers have said this would add another 5.6% to the national pay bill over the two years to 2020.



# Accounting, auditing and governance

## **IFRS 15 – revenue from contracts with customers**

The new revenue standard, IFRS 15, creates a single source of revenue requirements for all entities in all industries and is a significant departure from legacy IFRS. The new standard applies to revenue from contracts with customers and replaces all of the legacy revenue standards and interpretations in IFRS, including IAS 11 Construction Contracts and IAS 18 Revenue.

IFRS 15 is principles-based but provides more application guidance and increased judgement. IFRS 15 also specifies the accounting treatment for certain items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets. The new standard will have little effect on some entities, but will require significant changes for others.

The standard describes the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance

Entities will need to exercise judgement when considering the terms of the contract(s) and all of the facts and circumstances, including implied contract terms. Entities will also have to apply the requirements of the standard consistently to contracts with similar characteristics and in similar circumstances.

The 2018/19 Code of practice on Local Authority Accounting in the United Kingdom (the Code) will determine how IFRS 15 revenue from customers with contracts will be adopted by local government bodies. The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The CIPFA/LASAAC Local Authority Accounting Code

Board met on 6 June 2017 and discussed the implication of IFRS 15 on Local Government entities. The minutes of this meeting corroborate our view that for most entities income streams from contracts with customers are likely to be immaterial. The vast majority of income streams are taxation or grant based which do not fall within the scope of IFRS 15 as they are not contractually based revenue from customers.

However, this may not always be the case for some smaller English authorities or authorities where there is a high public interest in commercial activities. The following income streams are within the scope of IFRS 15 and will need special consideration if they are material to the users of the financial statements:

- ▶ Fees and charges for services under statutory requirements
- ▶ Sale of goods provided by the authority
- ▶ Charges for services provided by a local authority

## **EY – CIPFA Accounts Closedown Workshop 2017-18**

EY and CIPFA Financial Advisory Network (FAN) are continuing to work in partnership to deliver a programme of accounts closedown workshops to support local government finance professionals across the country with separate events for police bodies and English, Welsh and Scottish local authorities. The workshop programme covers the key changes impacting on the production of the 2017/18 financial statements and the outcomes of the 'telling the story' changes to the Code of Practice on Local Authority Accounting in 2016/17. Looking forward there are significant changes to IFRS that will come through in the 2018/19 Code and later, so the workshops are also focused on the key risks in relation to the new Financial Instruments standard IFRS 9 and other future expected changes in the Code with potential to impact on the General Fund and the HRA. These workshops also aim to prepare local authority finance staff for a 'faster, smarter and more accurate' accounts closedown for 2017-18.

By the end of this May, your local authority will need to publish its unaudited statement of accounts and publish audited accounts by the end of July. These changes provide risks for

both the preparers and the auditors of the financial statements. Local Authorities will now have less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Failure to meet a deadline at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ Good quality draft financial statements and supporting working papers by the agreed deadline
- ▶ Appropriate staff to be available throughout the agreed audit period
- ▶ Complete and prompt responses to audit questions

If your authority is unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Of the 150 authorities we audit, we currently consider that around a quarter have left themselves a significant amount of work to do to get there and are running a real risk of missing the deadline because they will not have quality draft accounts and supporting evidence ready for their auditors by the end of May.

In addition to our workshops with CIPFA, we have held events in each of our local offices and gathered insights from over 100 practitioners and their local audit teams on the importance of what finance teams and auditors each need to do, and collaboratively, to achieve a successful faster closure. We have put together a comprehensive list of actions to streamline processes, work more collaboratively with their auditors and draw on EY's analytics and innovative audit approach to achieve faster close. We include a summary below.

## Summary of faster close activities

Finance teams are:

- ▶ Critically appraising the content of their accounts, removing unnecessary disclosures
- ▶ Closing the ledger earlier and encouraging greater discipline across the authority to comply with deadlines for accruals
- ▶ Preparing discrete sections of the accounts (e.g., narrative report and remuneration notes) and associated working papers earlier to facilitate early audit work
- ▶ Focusing on judgements and significant estimates earlier including engagement with auditors
- ▶ Reviewing the de-minimis level for accruals, including discussion with auditors
- ▶ Conducting a hard close for monthly reconciliations e.g., bank reconciliations, feeder systems, etc., with a zero-tolerance to reconciling items over a month old
- ▶ Undertaking weekly cut-off testing in April to ensure that the accounts are complete, retaining the evidence in case that item is selected for audit testing

Auditors are:

- ▶ Meeting regularly with finance staff, sharing details of the audit approach, agreeing a planned timetable of tasks, communicating changes and providing clarity on what is expected and when

- ▶ Bringing forward testing to reduce the amount needed to do in the summer. In particular, valuation of land and building and other high risk areas
- ▶ Increasing the use of analytics to interrogate ledger and payroll transaction data
- ▶ Using the online EY client portal to streamline communications with finance teams
- ▶ Attending workshops with finance teams on accounting issues and effective working papers
- ▶ Selecting items for sample testing earlier

Together finance teams and auditors are:

- ▶ Holding regular meetings throughout the year to share progress and discuss issues
- ▶ Planning respective activities to ensure sufficient capacity on both sides
- ▶ Revisiting audit issues from the prior year, agreeing how similar issues can be avoided
- ▶ Ensuring the client assistance schedule is appropriately tailored

We have produced a faster close briefing checklist that you can use to ensure that you are doing all you can, alongside working with us, to achieve the accelerated timetable. For more information please contact your local engagement lead.



# Regulation news

## EU General Data Protection Regulation: are you ready?

On 17 December 2015, after more than three years of negotiations and several draft versions of the General Data Protection Regulation (GDPR), an informal agreement was reached between the European Parliament and Council of the European Union. The GDPR is a significant change for organisations. It introduces more stringent and prescriptive data protection compliance challenges, backed by fines of up to 4% of global annual revenue. The regulation replaces Directive 95/46/EC, which has been the basis of European data protection law since it was introduced in 1995.

The Regulation has a significant impact on organisations in all sectors, bringing with it both positive and negative changes in terms of cost and effort.

Key changes proposed by the EU GDPR include:

- ▶ Regulators can impose fines of up to 4% of total annual worldwide turnover or €20,000,000
- ▶ Data Protection Officers (DPOs) – DPOs must be appointed if an organisation conducts large scale systematic monitoring or processes large amounts of sensitive personal data
- ▶ Accountability – organisations must prove they are accountable by establishing a culture of monitoring data processing procedures, minimising data retention and building safeguards, and documenting data processing procedures
- ▶ Organisations must undertake Privacy Impact Assessments when conducting risky or large scale processing of personal data

- ▶ Consent to process data must be freely given, explicit and individuals must be informed of their right to withdraw their consent
- ▶ Organisations must notify supervisory authorities of data breaches 'without undue delay' or within 72 hours, unless the breach is unlikely to be a risk to individuals
- ▶ Introduction of new rights – right to be forgotten, right to data portability and right to object to profiling
- ▶ Organisations should design data protection into the development of business processes and new systems and privacy setting should be set a high level by default
- ▶ Data processors become an officially regulated entity

Whilst organisations may welcome the harmonisation of laws across the 28 EU member states which will make the complex data protection landscape easier to navigate, the introductions of new rights for individuals are likely to increase the regulatory burden for organisations.

Organisations need to review their current data protection compliance programmes to determine next steps and decide on the level of investment they need to make before 2018 to address the changes.

Organisations need to act now to ensure that they are ready to comply with the new Regulation when it comes into force on 25 May 2018.

# Key questions for the Audit Committee

Has your local Authority considered the changes to council tax flexibilities into the 2018-19 budget And the impact of changes to business rate retention into your Medium Term Financial Strategy?

Has your local authority been affected by the collapse of Carillion plc? How have contingency plans been implemented to maintain public services? What (if any) is the local authority's financial exposure to this event?

Has your local authority included in its budget any likely increases of employee wages above 1%?

Has your Authority considered how IFRS 15 might impact your revenue streams?

How has the local authority prepared for the accelerated accounts closedown timetable for 2017-18?

Has the Authority considered the implications of the new GDPR, and is the Authority confident that it comply with its requirements when it comes into force?

## Find out more

### EY ITEM Club Forecast

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

### 2018-19 Local Government Finance Settlement

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/669538/LGFS\\_consultation\\_2018-19.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669538/LGFS_consultation_2018-19.pdf)

<https://www.local.gov.uk/parliament/briefings-and-responses/provisional-local-government-finance-settlement-201819-day>

<http://www.cipfa.org/about-cipfa/press-office/archived-press-releases/2017-press-releases/cipfa-responds-to-the-provisional-local-government-finance-settlement?crdm=0>

### Carillion collapse

<http://www.publicfinance.co.uk/news/2018/01/public-sector-looks-ways-plug-gap-left-carillion>

<http://www.publicfinance.co.uk/news/2018/01/public-services-will-be-protected-after-carillion-collapse>

### Public sector pay

<http://researchbriefings.files.parliament.uk/documents/CBP-8037/CBP-8037.pdf>

<http://www.publicfinance.co.uk/news/2017/12/local-employers-issue-2-pay-offer-each-next-two-years>

### IFRS 15 – revenue from contracts with customers

[http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/\\$FILE/ey-applying-revenue-october-2017.pdf](http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/$FILE/ey-applying-revenue-october-2017.pdf)

### EY – CIPFA Accounts Closedown Workshop 2017-18

For Faster Close Activities Checklist: please contact your local engagement lead

For a full list of locations and dates available search for 'Accounts Closedown Workshop' at <http://www.cipfa.org/training>





#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

#### Ernst & Young LLP

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, More London Place, London, SE1 2AF.

© 2018 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

ED None

EY-000055804.indd (UK) 02/18. Artwork by Creative Services Group London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

[ey.com/uk](http://ey.com/uk)