

**Financial Scrutiny and Audit  
Committee**

14 November 2017

Agenda Item No 9

**External Audit**

Report by Chief Financial Officer

**Summary:** This report appends:

- (i) the Annual Audit Letter for 2016/17.
- (ii) the Local Government Audit Committee Briefing by Ernst & Young

**Recommendation:**

- (i) That the Annual Audit Letter for 2016/17 be noted.
- (ii) That the briefing, including the key questions for Audit Committees as set out on page 8 in Appendix 2, be noted.

**1 Introduction**

- 1.1 The Annual Audit letter for 2016/17 summarises the key issues arising from the audit. These key findings are set out on page 10 of Appendix 1. The Audit results were considered at 25 July FSAC committee.

**2 Financial Implications**

- 2.1 The final audit fee remained the same as detailed in the audit plan and was charged to the accounts for the year.

**3 External Audit Briefing**

- 3.1 This briefing is presented “for information”.

- 3.2 The items of relevance to the Authority are:

- EY Item Club Forecast (page 2);
- WannaCry ransomware attack (page 3);
- Women and leadership (page 5);
- EY Local government audit committee members governance forum (page 6); and
- Outcome of Local Government Tender Process (page 6).

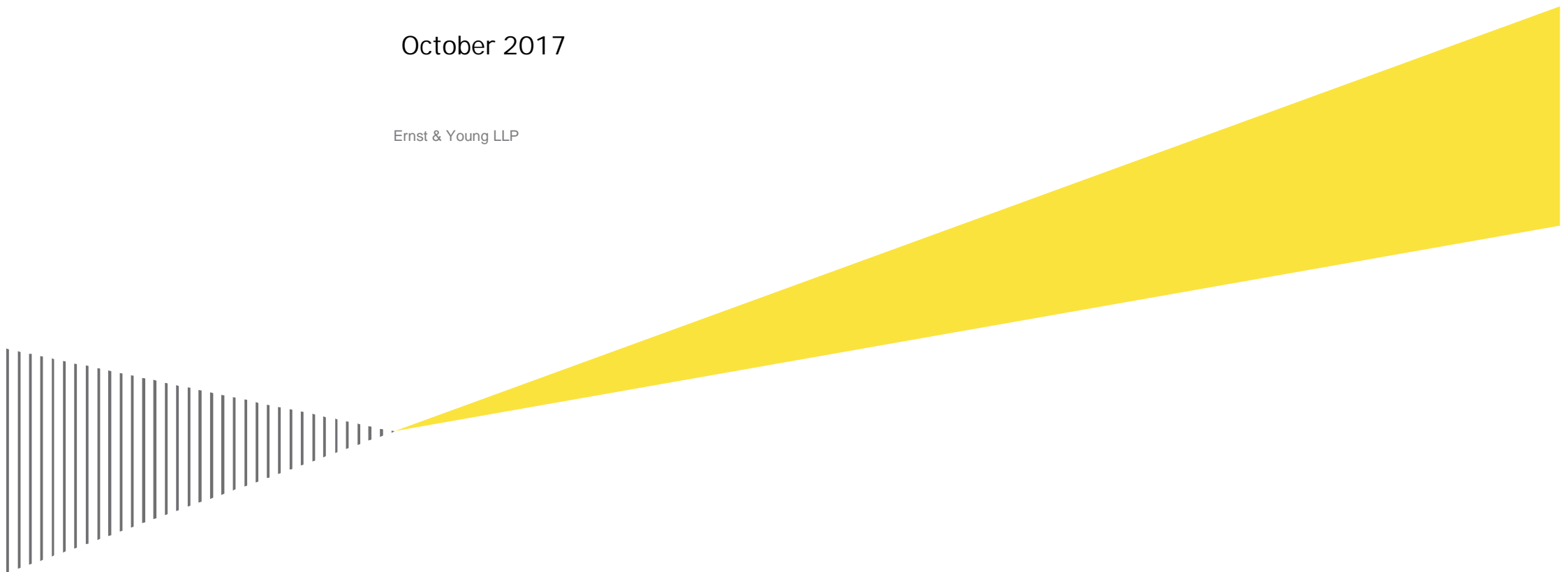
Background papers:	None
Author:	Emma Krelle
Date of report:	25 October 2017
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Ernst & Young Annual Audit Letter 2016/17 APPENDIX 2 – Local Government Audit Committee Briefing (Quarter 3 2017)

# The Broads Authority

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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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 blue-toned interface with charts. 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 bar chart with yellow bars. A black pen and a calculator are also visible 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	<p>We determined planning materiality to be £158 thousand, which is 2% of Gross Expenditure reported in the accounts of £7,882 thousand.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.</p>
Reporting threshold	<p>We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £8 thousand.</p>

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.



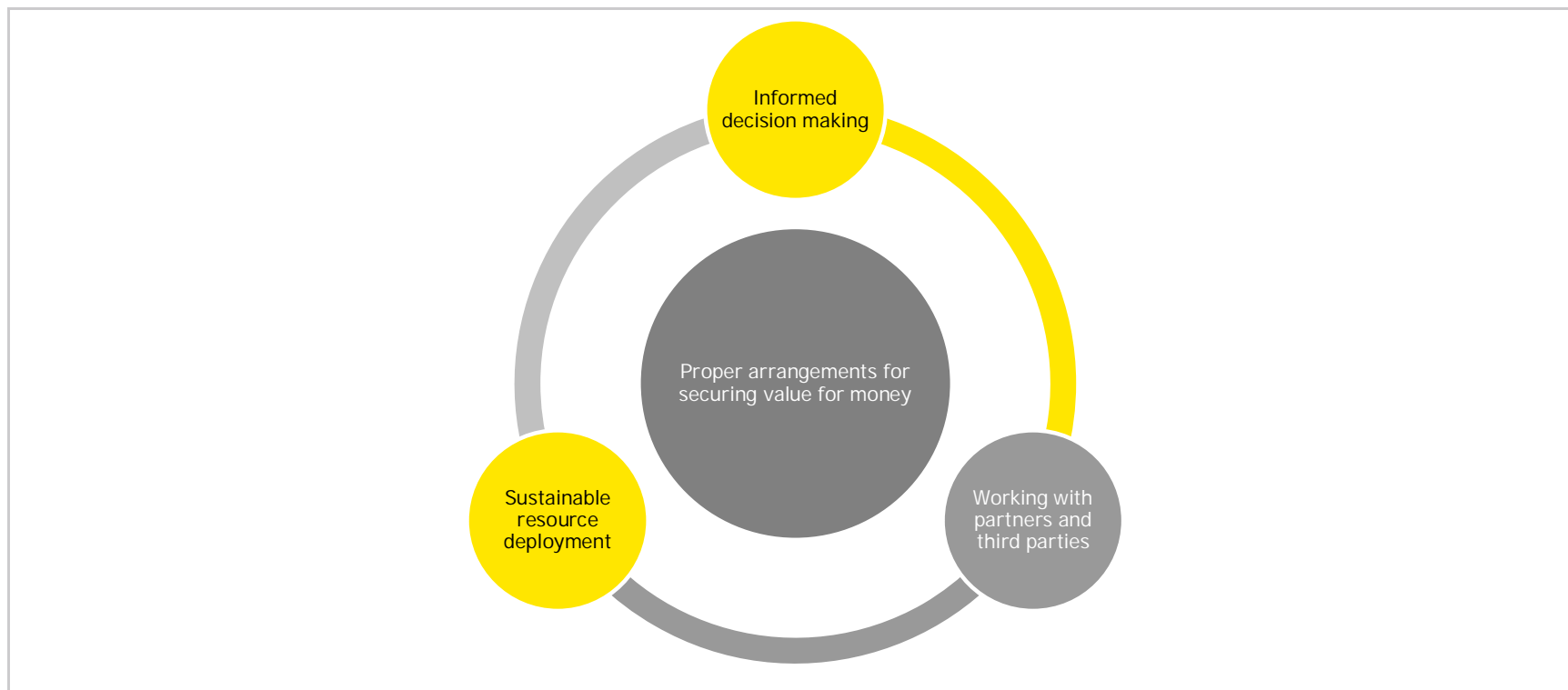
# Value for Money

## Value for Money

We are required to consider whether the 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 visible in the background, slightly out of focus. A bright yellow rectangular box is overlaid 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

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ED None

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A man with short brown hair, wearing a dark suit, light blue shirt, and a red tie with a white floral pattern, is shown in profile from the chest up. He is looking towards the left with a slight smile. In the background, the Tower Bridge in London is visible, slightly out of focus. A yellow banner is overlaid on the bottom left of the image.

# **Local Government audit committee briefing**



Building a better  
working world



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

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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

## EY Item Club Forecast

The latest EY Item Club forecast projects that UK GDP will grow by 1.8% this year, in line with last year's outcome. Rather than meaning that nothing has changed in the economy, it masks an underlying shift in the balance of demand following the fall in the pound after last June's Brexit vote – and means the economy is already adjusting to life outside the EU.

It expects growth to slow down during the course of this year, leaving 2018 and 2019 looking weaker at growth rates of 1.2% and 1.5% respectively.

As consumption grows, the shift in demand that's underway essentially involves a rebalancing from consumption to overseas trade. Last year, consumption effectively accounted for all the growth in demand, with overseas trade subtracting 0.4% from UK GDP growth. But with the savings ratio at a record low, this year sees a major slowdown in consumption as inflation bites into spending power. Meanwhile, net trade is projected to add to GDP in every year covered by this forecast.

This adjustment is being helped by a timely revival in our overseas markets. World trade and industrial output are growing faster than at any time since 2010, when they bounced back from the recession. For once, the recent economic data has surprised on the upside – not just in the UK but also in the US and Eurozone.

This revival partly reflects the knock-on effects of the collapse in commodity prices in 2015. And their recent recovery has pushed inflation back close to target levels almost everywhere, easing worries about deflation, especially in the Eurozone.

Despite the bright spots, political risks remain. In the US, the 'Trump bump' in the financial markets has been followed by another increase in consumer and business confidence. As a result, consumer confidence there is now stronger than at any time since the dot-com boom in 2000. However, as president, Donald Trump is facing political challenges in delivering some of his campaign promises – a situation that makes the likelihood, timing and magnitude of US policy initiatives very uncertain. What's more, any initiatives he does succeed in delivering could either help or hinder the UK's adjustment to life outside the EU.

Against this mixed background, UK exporters are currently enjoying the benefits of Single Market membership as well as the devaluation in sterling and the revival in the world economy. We are assuming they will be trading under World Trade Organisation (WTO) rules in two years' time, although it's possible that the Government will be able to negotiate more favourable transition arrangements, perhaps followed by free trade agreements. These arrangements would make the adjustment smoother than the WTO option and provide some upside potential.

In respect of Brexit, firms may not have the confidence to invest until they see the shape of the new trading and immigration arrangements. The forecast sees investment falling this year and again in 2018, holding back demand and longer-term economic performance. As the countdown to Brexit begins, it's clear that UK businesses will be living with uncertainty for some time to come.





# Accounting, auditing and governance

## WannaCry ransomware attack

On Friday 12 May 2017, a global ransomware attack occurred across a whole range of sectors, including healthcare, government, telecommunications and gas, spreading to over 300,000 systems in over 150 countries. This affected many NHS Providers throughout the UK including the ability of some to provide a full suite of healthcare.

Over the last five years the number of attacks has grown tremendously as cyber criminals demand relatively small amounts of money in return for the data they hold hostage. However the return of data does not always happen.

WannaCry was used in conjunction with self-propagating malware allowing it to spread aggressively to other computers over an organization's network without requiring further interaction from users. This is the first time ransomware has been used in this way.

### Why is this attack significant?

The global scale of indiscriminate targeting emphasizes the need for all companies, private and public, to pay attention to security basics:

- ▶ Keep systems up-to-date with software patches
- ▶ Make regular backups of data
- ▶ Educate users not to click suspicious links

The overall cost of the disruption is significant, but variable by sector and organization. Actual costs to organizations is not yet known, and will differ for every victim, but could have long lasting effects in the NHS if it lead to delayed or cancelled treatments.

### Steps to take now

The WannaCry incident highlights the need for organizations to get the cybersecurity basics right:

1. Identify and manage the organization's cyber risks, with a specific focus on the priority cyber threats and breach scenarios that could disrupt operations or have other negative impacts on the organization.
2. Educate the organization's employees in good cybersecurity practices and the use of third-party assessment/assurance programs.
3. Maintain awareness of the cyber threat environment. Cyber criminals and other attackers are constantly evolving their methods to create ever-more effective ways of exploiting vulnerabilities for monetary gain or disruption purposes. Often this involves interfering with data integrity rather than compromising its confidentiality.
4. Maintaining and regularly reviewing elements of a cybersecurity program will provide a strong foundation for building cyber resilience into your organization: patch often, define your cyber incident response process, back up regularly and practice response scenarios.





### **Preventive measures to reduce the risk of ransomware**

EY member firms range of cybersecurity services – including proactive penetration testing, cyber transformation and Managed Security Operations Centers – can be leveraged to prevent a ransomware outbreak within an organization:

- ▶ Ensure vulnerability and patch management policies and procedures are up to date and are implemented through appropriate change control procedures. Where out-of-date and legacy operating systems are used, seek guidance from vendors on further steps.
- ▶ Maintain an effective enterprise incident response and business continuity plan that is tested and measured for effectiveness against ransomware and other potential attack methods, as well as updated to reflect the current cyber threat environment.
- ▶ Ensure the organization has a security awareness training program in place with proactive testing, including screenshots of what to look out for. Clear guidance should be provided on the immediate steps alongside incident reporting guidelines. This should be communicated to all users and third parties who connect to the organization's network.
- ▶ Ensure regular, tested backups are in place to mitigate effects of possible infection and speed the recovery process in lieu of succumbing to ransom payment demands.
- ▶ Seek assurance from third parties who connect to your network that they are following similar actions to yourself and that they are appropriately protecting themselves.
- ▶ Implement endpoint monitoring, giving security operations teams the visibility into malicious behaviour occurring in the environment.
- ▶ Identify critical systems and data and confirm these are connected to Internet only when necessary.
- ▶ Make sure to test the security program with frequent penetration tests across the estate.
- ▶ Review how proactive security monitoring of the entire environment via a Security Operations Center (SOC) could enable faster detection and response to incidents.

### **Response considerations in the event of an attack**

If an organization believes it is compromised, or is in the process of being compromised, then the following activities can help to provide a rapid response, damage containment and communications to end users:

- ▶ Disconnect infected machines from the network and take all backups offline. These could become encrypted as well if left connected to the network.
- ▶ EY FIDS's Forensic Technology & Discovery Services team can be quickly mobilized to help companies:
  - ▶ Forensically analyse network and host systems to detect early indications of penetration by ransomware to allow more rapid response and remediation.
  - ▶ Forensically detect, identify and contain ransomware malware based on previous experience with ransomware negotiations and ransomware eradication. Forensically circumvent ransomware and/or recover data from damaged systems and/or backups, and verify that recovered data are clean from ransomware contamination.
  - ▶ Forensically image and preserve highly sensitive impacted machines to help ensure the systems and data are not destroyed by ransomware.
  - ▶ Collect and preserve IT and business evidence in a forensically sound manner, and then deliver internal or stakeholder investigations and support disputes with customers, service providers, and requirements for regulatory reporting.
- ▶ Activate your incident response plan and don't treat the investigation as merely an IT issue; there should be cross-functional representation in the investigation team such as: legal, compliance, information security, business, PR, HR, etc.
- ▶ Identify and address vulnerabilities in the environment, sufficiently harden the environment to complicate the attacker's effort to get back in, enhance the ability to detect and respond to future attacks, and prepare for eradication events.
- ▶ Activate your business continuity plan. Prepare data based on varying requirements for regulatory inquiries or civil suits.



## Women and leadership

The King's Fund recently drew attention to a couple of reports on women in leadership roles:

- ▶ NHS Women on Boards: 50:50 by 2020 (see <http://www.nhsemployers.org/case-studies-and-resources/2017/03/nhs-women-on-boards-5050-by-2020>)
- ▶ Women in finance

These reports draw attention to the problems some women face in obtaining senior leadership positions within the NHS and other organisations. While there are typically more women that start in finance roles than men there are few women that move up the management ladder. The main reason for this is thought to be organisational culture.

A study in 2016 across a range of sectors found that unsupportive workplace cultures present the most significant barrier for women to progress their career. This was the case for female respondents in most age categories. Gender inequality and discrimination were reported with women feeling that they have to over-perform simply because of their gender. Recommendations following this study included building closer relationships between men and women in the workplace, and the provision of

opportunities to discuss gender issues experienced within the organisational culture.

Organisational culture, such as the drive for a more inclusive approach to leadership development, is currently receiving considerable attention in the NHS. Given the NHS is made up of a predominantly female workforce, the impact of such a culture is largely upon women. Despite 77 percent of the NHS workforce being female there is generally a much lower percentage of women in senior leadership positions. For the NHS Improvement/ NHS Employers target of 50:50 representation on boards to be achieved 500 more women would need to be appointed to board-level positions by 2020.

The NHS report also advocates gender-specific learning in NHS training programmes, covering topics such as unconscious bias, management of flexible working practices and specific female coaching, mentoring and sponsorship.

Within the EY Assurance service line we have many experts in Culture and have provided various services across the NHS and Local Government. If you would like to discuss any of these past projects, or a new one for your body, please contact your local engagement lead who can provide more information.

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## 2018/19 Code of Practice on Local Authority Accounting Consultation

CIPFA/LASAAC are consulting on the 2018-19 Code of Practice on Local Authority Accounting in the United Kingdom.

The consultation closes on 6 October 2017 with responses direct to CIPFA. The following changes are being consulted on:

- ▶ IFRS 9 Financial Instruments
- ▶ IFRS 15 Revenue from Contracts with Customers

- ▶ Narrow scope amendments to International Financial Reporting Standards
- ▶ Legislative and policy changes.

Further information is available from Paul Mayers, Audit Manager, on 07972 221 078 or [paul.mayers@nao.gsi.gov.uk](mailto:paul.mayers@nao.gsi.gov.uk).



# Other news

## Use of Housing Companies

Housing lawyer Ian Doolittle has stated that there are over 40 councils which have or are currently working towards setting up housing companies, with this figure expecting to increase over the coming years.

The reasoning behind setting the companies up can vary from building homes to sell and rent at market rates, to building social housing separate to the HRA. The message from central government regarding this is that any means to help the current housing crisis is welcomed.

Deputy Chief of the Chartered Institute of Housing (CIH) Gavin Smart spoke about the benefits housing companies can have in serving different market segments, however was wary regarding whether the new homes are genuinely affordable.

He stated that councils must prioritise building new home at social rent levels.

An interesting aspect around the housing companies being set up is that responsible borrowing of money from the General Fund does not count towards the HRA Debt cap. This is being seen as an attractive option for many councils who have reached the debt cap which was introduced in 2012.

With private developments not meeting demand and private housing carrying a high cost it seems Housing Companies could be seen as an important mechanism in achieving the Government's aim to build one million new homes over the next five years.

For advice on the implications of setting up a Housing Company please speak to your audit engagement team.

## EY Local government audit committee members governance forum

Between April and July we held five events across the country for local government audit committee chairs and members to meet, network, gain some EY insights and learn from each other on topical governance challenges facing the sector. We've met almost 80 members some with a few weeks experience and others with many decades, some who may well have been just out of school, others far wiser but all passionate about their local communities their roles as elected officials.

In this section of the briefing we share with you the benefits members obtained from attending our events and our plans for the future.

We focused each forum on the current hot topic in the sector – commercialisation and what it means for audit committees. Notwithstanding the challenge posed by the simple question of 'what does commercialisation mean', the variety of ongoing

and emerging activities was striking ranging from advertising on roundabouts to building new crematorium and establishing housing development companies. Some key threads for members was public perception of authorities acting commercially, the need for authorities to ensure that they have the right capabilities, capacity, are focused on the long term and that the organisational culture matches the direction of travel.

Audit committee members had some concerns that they only tend to see commercial activities after they had been signed and sealed rather than providing challenge on governance and accountability before deals are completed.

Members valued the opportunity to meet peers, network and connect and hear how others are tackling similar issues using different approaches. Members also valued the insights that EY brings from our engagement with a wide range of authorities and other organisations around the country.

## Next steps

Following the overwhelmingly positive feedback from attendees we plan to run these forum every six months. We will seek input from members to set the agenda but

ensure sufficient time for networking and sharing and suspect the commercialisation agenda will remain the hot topic. Please liaise with your engagement partner and audit manager for details of dates and venues.

## Outcome of Local Government Tender Process

The Public Sector Audit Appointments Limited (PSAA) announced the results of the Local Government tender on 20 June 2017, and we are delighted to say that we have been successful in retaining our 30% share of the Local Government external audit market. Details of the announcement can be found on the PSAA website.

Since 2012, we have invested and committed to the growth of our public sector assurance team, and we believe this outcome reflects the feedback our clients and the PSAA have given us on the quality, efficiency and effectiveness of our service. This is also evidenced by our AQRT scores, which is discussed below. We are committed to the public sector and going forward we are extremely pleased that we are the leading Big 4 firm delivering audit services to the local government sector.





Between now and the end of December 2017, PSAA will be consulting with audited bodies on the proposed appointed auditor to determine the allocation of audit clients. We will be actively participating in the process, with our primary focus on ensuring the allocations safeguard independence, objectivity, and ensuring we are able to continue to deliver high quality, efficient and effective audits.

In the meantime, we are continuing to work to support our clients in preparing for the faster closure of accounts from the 2017/18 financial year. We recognise the journey our local government clients are making to transform and ensure sustainable public services. We are committed to work with our clients to share our insights from the vast range of services we provide in the public sector.

## Financial Reporting Council's (FRC) Audit Quality Inspection Results

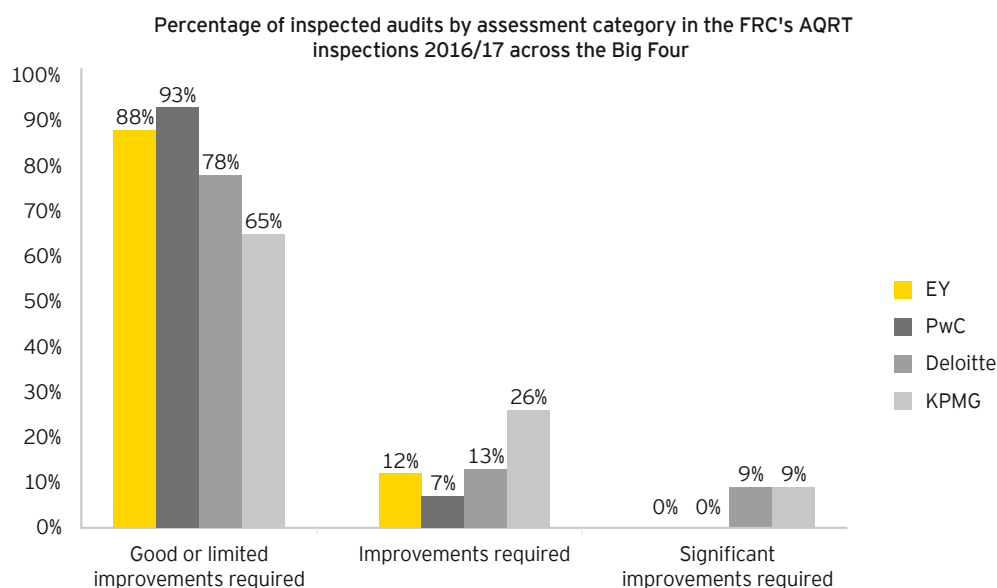
Executing high quality audits continues to be our highest priority. Ensuring that we deliver high quality audits is fundamental to our business and our public service obligation. We are therefore committed to a significant and sustained investment in audit quality.

### EY's investment continues to be reflected in the FRC's inspection results

The firm is subject to external inspection by the FRC's Audit Quality Review Team (AQRT), the ICAEW's Quality Assurance Department (QAD) and the Public Company Accounting and

Oversight Board (PCAOB) from the US. The AQRT's scope is the audits of FTSE 350 and other public interest companies in the UK and it issues public reports outlining its work and conclusions.

We are delighted that 88% of our audits inspected by the AQRT this year were assessed as requiring no more than limited improvements and that once again no audits subject to review were identified as requiring significant improvements. The results of the FRC AQRT report published in June 2017, as presented in the chart below, reflect our sustained investment in audit quality.



**Figure 1.** Bar chart showing the FRC Audit Quality Review Team inspection results for EY, PwC, Deloitte and KPMG



# Key questions for the Audit Committee

Does your organisation and its partners have in place IT security arrangements which minimise the risk and impact of cyber attacks?

Is your culture allowing women to progress to senior positions?

Are you aware of the commercial activities of your authority? What assurance have you sought on the adequacy of risk identification, effectiveness of risk management and the arrangements for optimising benefits realisation?

Are you assured that all financial considerations have been addressed? Including appropriate due diligence, staying within

state aid rules, understanding the impact on the minimum revenue provision and clarity on the longer term revenue implications of capital investments.

Do you know about the significant commercial activities in the pipeline? What assurance do you have that business cases are robust and realistic?

Has your authority recently discussed and agreed its risk appetite?

## 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>

### WannaCry ransomware attack

<http://www.ey.com/gl/en/services/advisory/ey-wannacry-ransomware-attack>

### Women and leadership

<http://www.nhsemployers.org/case-studies-and-resources/2017/03/nhs-women-on-boards-5050-by-2020>

### Use of Housing Companies

<http://www.publicfinance.co.uk/feature/2016/10/company-houses-how-councils-are-constructing-new-model-housing>



## Notes

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