Financial Scrutiny and Audit Committee
6 March 2018
Agenda Item No 9

External Audit

Report by Chief Financial Officer

Summary: This report appends:

(i) the Audit Plan for the 2017/18 audit
(ii) the Local Government Audit Committee Briefing by Ernst & Young.

Recommendation:

(i) That the Audit Plan for the 2017/18 audit be noted.

(ii) That the briefing, including the key questions for Audit Committees as set out on page 5, be noted.

1 Introduction

1.1 The Audit Plan for the 2017/18 audit by Ernst & Young is appended to this report (appendix 1). The plan sets out the work which the auditors propose to undertake for the audit of the financial statements and the value for money conclusion for 2017/18. It confirms that the proposed audit fee will be £13,943, which represents no change from the fee charged since 2012/13.

1.2 The Audit Director, Kevin Suter, along with Audit Manager, Sappho Powell, will be attending the meeting to introduce the Audit Plan and answer any questions.

2 Identification of Significant Risks

2.1 The Audit Plan takes a risk-based approach to audit planning and identifies one significant risk in 2017/18, which relates to management override. This risk is consistent to the risks presented for 2016/17.

2.2 This year sees the introduction of the other risks sections. These are not new risks and were considered in last year's plan under the use of specialists. The risks identified relate to Valuation of Land and Buildings and Pension Liability valuation.

2.3 The audit approach to these risks and value for money is set out in section two and three of the Audit Plan.

3 Financial Implications

3.1 Provision for the audit fee is included in the 2017/18 budget and will be charged in the accounts for the year.

4 Briefing Key Issues

4.1 This briefing is presented to Members as a "for information" item.

4.2 The items of relevance to the Authority are:

- The government and economic news, in particular regarding the latest forecast (page 2 onwards);
- Planning fees (page 3), which have subsequently increased from 17 January 2018, http://www.publicfinance.co.uk/news/2018/01/councils-able-increase-planning-fees-20-month;
- Commercialisation (page 4); and
- 2017/18 early accounts closure (page 4).

Background papers:	None
Author:	Emma Krelle
Date of report:	25 January 2017
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Ernst & Young Audit Plan 2017/18 APPENDIX 2 – Ernst & Young Local Government Audit Committee Briefing (Quarter 4 2017)

Broads Authority
Audit planning report

Year ended 31 March 2018

February 2018

EY
Building a better working world

12 February 2018

The Members
Financial Scrutiny and Audit Committee
Broads Authority
Yare House
62-64 Thorpe Road
Norwich NR1 1RY

Dear Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Financial Scrutiny and Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Financial Scrutiny and Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 06 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

Kevin Suter

Executive Director

For and on behalf of Ernst & Young LLP

Enc

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Financial Scrutiny and Audit Committee and management of the Broads Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Financial Scrutiny and Audit Committee and management of the Broads Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Financial Scrutiny and Audit Committee and management of the Broads Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

The following ‘dashboard’ summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Financial Scrutiny and Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of management override	Fraud risk	No change in risk or focus	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 prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Property, Plant and Equipment Valuation	Other financial statement risk	No change in risk or focus	Property, Plant and Equipment represents a significant balance in the Authority’s accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Pensions Liability – IAS19	Other financial statement risk	No change in risk or focus	The Authority’s current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Authority’s balance sheet. Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2017/18 audit strategy

Materiality

Planning materiality
£158k

Materiality has been set at £157,640, which represents 2% of the prior years gross expenditure on provision of services.

Performance materiality
£118k

Performance materiality has been set at £118,230, which represents 75% of materiality.

Audit differences
£7.9k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £7,882. Other misstatements identified will be communicated to the extent that they merit the attention of the Financial Scrutiny and Audit Committee.

Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

§ Our audit opinion on whether the financial statements of the Broads Authority give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and

§ Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

§ Strategic, operational and financial risks relevant to the financial statements;
§ Developments in financial reporting and auditing standards;
§ The quality of systems and processes;
§ Changes in the business and regulatory environment; and,
§ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Broads Authority.

Audit team changes

Key changes to our team:

Sappho Powell, Manager

- Sappho is a Manager within the UK&I Assurance practice, with over two years experience of managing LG audits. She will be the key contact for your Finance Team.
- She is a member of the Chartered Institute of Public Finance and Accountancy (CiPFA).

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
Management override*	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	• Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Broads Authority accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: • Consider the work performed by the Broads Authority valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; • Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test accounting entries have been correctly processed in the financial statements,
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Broads Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council. The Broad's Authority pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Broads Authority balance sheet. At 31 March 2017 this totalled £7.7m million. The information disclosed is based on the IAS 19 report issued to the Broads Authority by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Liaise with the auditors of Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Broads Authority; • Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Broads Authority's financial statements in relation to IAS19.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Broads 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.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

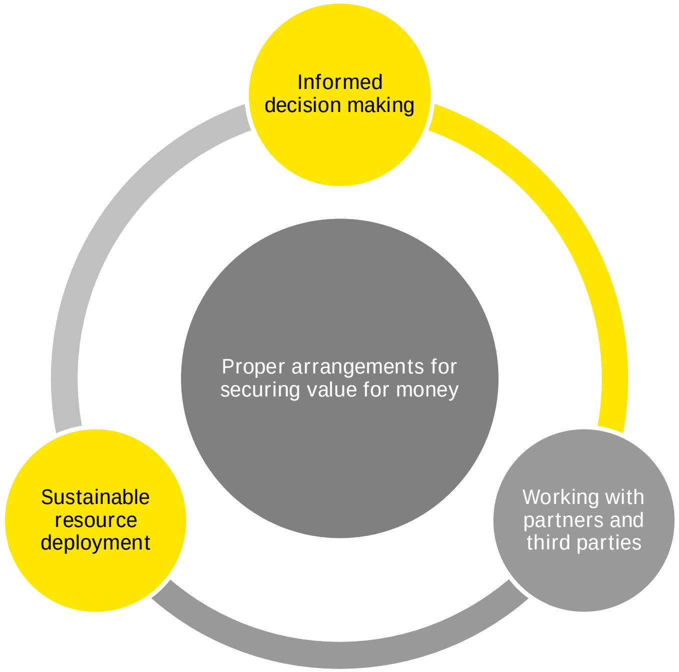
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks.

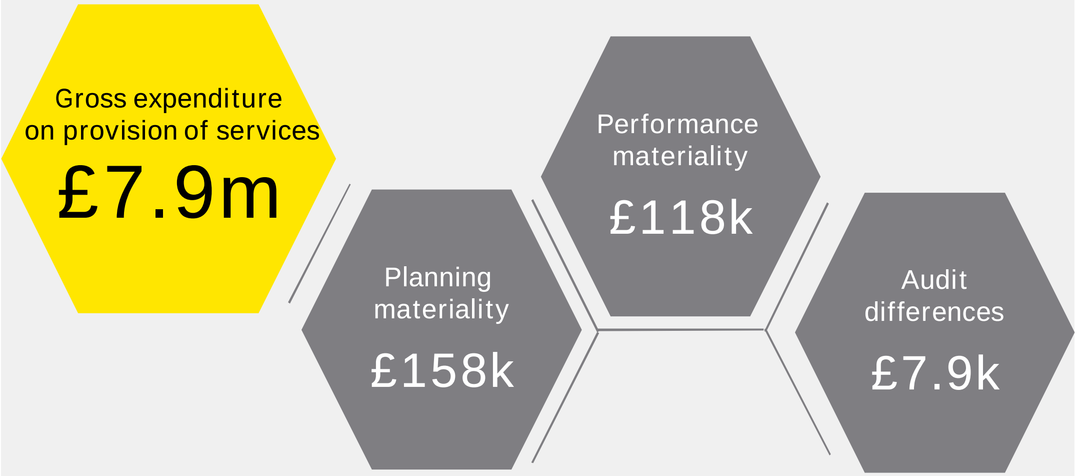


04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £158k. This represents 2% of the Authority's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. In GPS, gross expenditure is used as a basis for materiality (i.e. it is an equivalent of Operating expenses) due to the fact the main function of the entity is to provide services to the local community. We have based PM on the 16/17 Final Statement of Accounts - Gross expenditure as we do not expect any significant changes in the economic environment in which the Authority operates in We have provided supplemental information about audit materiality in Appendix D.



We request that the Financial Scrutiny & Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £118k which represents 75% of planning materiality. The rationale for using 75% is based on the anticipation of identifying few or no errors during the audit. This expectation has been built on our experience of the Authority in prior years.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Financial Scrutiny & Audit Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of nil for remuneration disclosures , related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

2. Arrangements for securing economy, efficiency and effectiveness (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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

► Evaluating the design and implementation of key internal controls in place at the Authority;

► Reliance on the work of internal audit where appropriate;

► Procedures to establish reliance on the work of experts in relation to areas such as pensions and property valuations; and

► Substantive tests of detail of transactions and amounts.

Processes:

We plan to rely on management procedures that operate at the financial statement or transactional level.

Our initial assessment has identified the following key processes that we will test:

► Clear communication of roles and responsibilities.

► Authorisation of significant transactions.

► Procedures to prepare financial statements.

► Management's review of the entity's financial performance.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Financial Scrutiny and Audit Committee.

Internal audit:

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our audit strategy where we identify issues that could have an impact on the yearend financial statements

06 Audit team

Audit team

Audit team structure:

Kevin Suter Lead Audit Partner
Sappho Powell Manager
Bach Pham Senior
EY Pension valuation
EY pension specialist

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	► Concertus Design and Property Consultants ► EY Estates team
Pensions disclosure	► EY pensions valuations team ► PWC review of Hymans pension fund actuary

In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Authority’s business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist’s findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Financial Scrutiny and Audit Committee and we will discuss them with the Financial Scrutiny and Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Financial Scrutiny and Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	December/January		
Walkthrough of key systems and processes Interim audit testing	March	Financial Scrutiny and Audit Committee	Interim audit update Audit Planning Report
Year end audit	June		
Audit Completion procedures	July	Financial Scrutiny and Audit Committee	Audit Results Report Audit opinions and completion certificates
	November	Financial Scrutiny and Audit Committee	Annual Audit Letter

Other areas of audit focus

Earlier deadline for production of the financial statements	What will we do?

Earlier deadline for production of the financial statements
 	
The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial 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 accounts by 31 July.
 	
These changes provide risks for both the preparers and the auditors of the financial statements.
 	
The Authority now has less time to prepare the financial statements and supporting working papers. Risks to the Authority include slippage in delivering data for analytics work in format and to time required, late working papers, and internal quality assurance arrangements.
 	
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. Slippage 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 Authority staff to be available throughout the agreed audit period; and
• complete and prompt responses to audit questions.
 	
If you are 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.
 	
Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.
	We will:
	• Work with the Authority to engage early to facilitate early substantive testing where appropriate.
	• Provide an early review on the Authority's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
	• Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
	• Work with the Authority to implement EY Client Portal, this will:
	    • Streamline our audit requests through a reduction of emails and improved means of communication;
	    • Provide on –demand visibility into the status of audit requests and the overall audit status;
	    • Reduce risk of duplicate requests; and
	    • Provide better security of sensitive data.
	• Agree the team and timing of each element of our work with you.
	• Agree the supporting working papers that we require to complete our audit.

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

<table>
<tr><th colspan="2">Required communications</th></tr>
<tr><th>Planning stage</th><th>Final stage</th></tr>
<tr><td>

The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
The overall assessment of threats and safeguards;
Information about the general policies and process within EY to maintain objectivity and independence.
Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]

</td><td>

In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
Details of non-audit services provided and the fees charged in relation thereto;
Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
Written confirmation that all covered persons are independent;
Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
An opportunity to discuss auditor independence issues.

</td></tr>
</table>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Authority. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Authority. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Final Fee 2016/17
	£	£
Total Fee – Code work	13,943	13,943
Total fees	13,943	13,943

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Broads Authority; and

► The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Regulatory update

In previous reports to the Financial Scrutiny and Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	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.
Impact on the Broads Authority	These changes provide challenges for both the preparers and the auditors of the financial statements. We held a faster close workshop for clients on in November 2017 to facilitate early discussion and sharing of ideas and good practice. We are now working with the Authority on ideas coming from the workshop, for example: • Streamlining the Statement of Accounts removing all non-material disclosure notes; • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; • Establishing and agreeing working materiality amounts with the auditors.

Appendix C

Required communications with the Financial Scrutiny and Audit Committee

We have detailed the communications that we must provide to the Financial Scrutiny & Audit Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Financial Scrutiny & Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report Report to those charged with Governance

Appendix C

Required communications with the Financial Scrutiny and Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report Report to those charged with Governance
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report Report to those charged with Governance
Fraud	• Enquiries of the Financial Scrutiny & Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report Report to those charged with Governance
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report Report to those charged with Governance

Required communications with the Financial Scrutiny and Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit results report Report to those charged with Governance

Required communications with the Financial Scrutiny and Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report Report to those charged with Governance
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Financial Scrutiny & Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Financial Scrutiny & Audit Committee may be aware of	Audit results report Report to those charged with Governance
Internal controls	• Significant deficiencies in internal controls identified during the audit	Management letter/audit results report Report to those charged with Governance

Appendix C

Required communications with the Financial Scrutiny and Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report Report to those charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report Report to those charged with Governance
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report Report to those charged with Governance
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report Audit results report Report to those charged with Governance

Appendix D

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Financial Scrutiny & Audit Committee reporting appropriately addresses matters communicated by us to the Financial Scrutiny & Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Appendix D

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

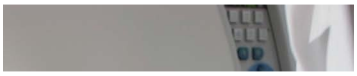
Materiality determines:

- The level of work performed on individual account balances and financial statement disclosures.

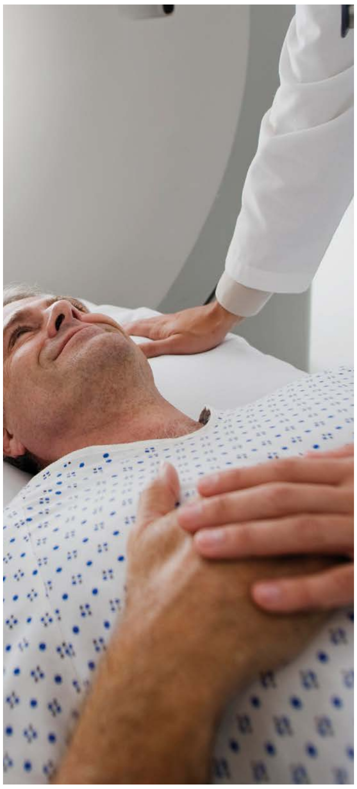
The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Local Government Audit Committee Briefing

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

EY Item Club forecast

The latest EY Item Club forecast highlights how this year's general election result has increased political uncertainty and hindered the Article 50 EU exit negotiations, but that it could lead to a more business-friendly Brexit (with agreement on transition arrangements and to a comprehensive free trade agreement).

In terms of the economy itself, the surge in inflation has slowed consumption which, combined with investment and exports failing to offset this effect, meant GDP growth fell back to 0.2% quarter-on-quarter in the first three months of 2017. The outlook for the rest of the year remains poor, and the April forecast of 1.8% for GDP growth in 2017 has been revised down to 1.5%. Conversely, the growth forecast for next year of 1.2% has been revised up to 1.3%.

Consumer spending grew by just 0.4% quarter-on-quarter in Q1 of 2017, down from 0.7% in Q4 of 2016 and 0.8% in each of the previous quarters. This is a reflection that household savings are already very stretched, wage growth remains low, whilst inflation is picking up faster than expected. When wages fail to keep pace with price rises, inflation reduces the strength of consumption and pushes down demand. With the economy slowing it seems unlikely that falling unemployment could now trigger a significant increase in wage inflation. In terms of Consumer Prices Index (CPI) inflation, it is expected to move above 3% by July and reach 3.2 to 3.3% in the autumn, maintaining the pressure on households.

Returning to Brexit, a transition agreement with talks on a free trade agreement under way, should stimulate investment, especially in sectors like the motor industry where it has been held back by Brexit uncertainty. As a result the EY Item Club medium-term forecasts have been revised upwards. April's GDP growth forecast of 1.5% for 2019 is raised to 1.8%, whilst expected growth rates of 1.8% for 2020 and 2021 have moved up to 2.0% and 2.2% respectively.

2018–19 local government settlement: consultation

During September and October 2017 DCLG embarked on a consultation process for the 2018–19 finance settlement, which will be the third year of the multi-year settlement that was accepted by 97% of local authorities. The main themes of the consultation were:

- **Business rate retention** – the 100% retention of business rate income scheme was piloted by five regions in 2017/18. Central government is committed to giving local government greater control over the money they raise and so they have invited interested local authorities to apply to participate in a new wave of pilot schemes for 2018/19. The Spring Budget 2017 announced that authorities in London were working with Government to explore piloting the scheme for 2018/19. However, independent research commissioned by the County

Council Network has identified that 100% business rate retention could actually increase the funding gap for county authorities by £700mn by 2029. The analysis indicated that there would be a divergence between future business rate growth and demographic cost pressures.

- **New homes bonus** – since its inception the New Home Bonus has allocated £6bn to local authorities to encourage the building of over 1.2mn new homes. As part of the 2017/18 financial settlement Government reduced the number of years for legacy payments from six to four starting in 2018/19, and also set a national baseline for housing growth to incentivise local authorities to build more new homes. The national baseline (below which no bonus will be paid) was set at 0.4% for 2017/18, which is significantly below average past growth rates. The 2018/19 baseline is yet to be confirmed; however, will be calculated based on additional housing stock as reported through council tax base figures.
- **Council tax referendum principles** – government is considering whether to retain the core principle that increasing council tax demands by greater than 2% would require a local referendum. In addition, Government is considering whether this 2% core principle should also apply to Mayoral Combined Authorities.
- Continuation of the Adult Social Care Precept principle of a 2% increase, with the additional flexibility in 2018/19 to increase this precept by an additional 1% to 3%, provided that the total increase between 2017/18 and 2019/20 does not exceed 6%.

Planning fees

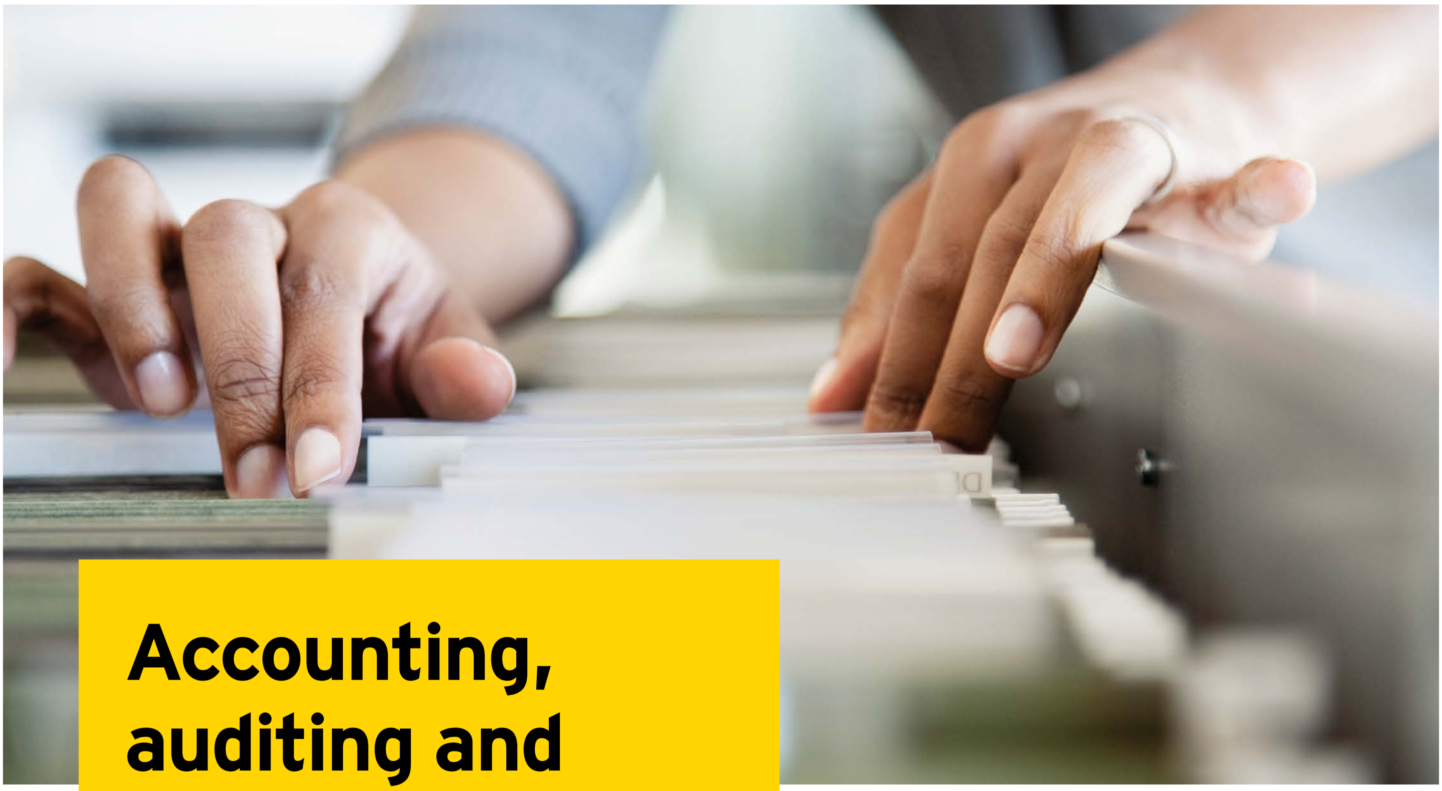
A government white paper published in February 2017 set out plans to allow local authorities to increase planning permission fees by up to 20% from July 2017; however, this increase has not been implemented and it is unclear whether it will in the future. This has put £1bn of potential future funding up to 2022 at risk according to the Local Government Association (LGA).

The LGA has estimated that the average council receives 486,500 planning applications per year with council tax funds being used to fund approximately one third of applications. Planning permission fees are set nationally so that applicants have certainty of cost throughout the country. Often individual householder applications will result in an overall loss for councils due to the small size of the application and corresponding fee, the cost of which is picked up by the taxpayer.

Adult social care

The DCLG 2017/18 Budget indicated that total local authority expenditure on adult social care is expected to rise by 8.6% in 2017/18 from £14.4bn to £15.6bn. Government has assisted local authorities to finance this increased expenditure through both the £2bn of extra funding for adult social care announced back in Spring 2017, of which £1bn will be available for 2017/18, and the adult social care precept first introduced in 2015/16 at a rate of up to 2%.

Given the increasing aging population throughout the UK there are still concerns that even this increased funding is not sufficiently sustainable to meet the future demand for adult social care services. A study published in the Lancet has found that the demand for high dependency adult care places is expected to increase by 86% by 2035, therefore the long term sustainable funding of adult social is critical. A green paper from Government is expected to be published shortly that will discuss the options for shaping the future of social care, including how it will be funded.



Accounting, auditing and governance

Commercialisation: local authority owned companies

Over 60% of local authorities currently own at least one trading company and this figure is expected to increase significantly by 2020 as councils seek efficiencies and innovations to generate extra income to bridge future funding gaps. Therefore, irrespective of type or purpose of newly established trading companies, governance and the interface between the local authority and their owned companies is critical to the commercial success of the trading enterprise.

Mike Birch, the CEO of a £300mn turnover wholly owned local authority company, said at CIPFA's annual conference that "the presence of too many members on executive boards could hamper the agility that a small and focused board needed to efficiently deliver services in a commercial environment … You cannot run a business by committee; it has to have a degree of focus and agility."

Having too many members on the Board of a council owned company may not be in the best interests of either the company or the council. Therefore when establishing (or reviewing) the governance arrangements of council owned companies it is important that the appropriate framework is put in place to operate effectively for both entities. There are many complex issues that require careful consideration, for example, minimisation of conflicts of interest for key individuals of both entities and the balance of sufficient oversight by the council whilst not hindering the operations of the trading company.

EY think piece: 2017/18 early accounts closure

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The new timetable for preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of audited accounts by 31 July. These reporting deadline changes will provide a challenge for both preparers and auditors of local authority financial statements.

The EY Think Piece on 'Accelerating your financial close arrangements' has identified several areas of consideration that may assist in the achievement of the challenging accelerated deadlines. These include:

- **Revisit the current closure timetable.** The robustness of project timetables and the management of bottlenecks in the closure process will be critical to achieve the new deadline.
- **Format of your accounts.** Are there superfluous notes in the financial statements that could be streamlined or removed on the basis of materiality? Discuss with auditors what would be considered material.
- **Review year-end journal process.** Do year end journals actually have to be done at year end? Could journals be made throughout the year, and then adjusted at year end for material changes.
- **Manage Members' Expectations.** A 31 July audit deadline will mean rescheduling your Audit Committee (or equivalent body who perform the duties of 'those charged with governance') before the deadline.

Key questions for the Audit Committee

How is the impact of Brexit being factored into the authorities MTFP projections?

Has your local authority considered the impact of the proposed financial settlement for 2018/19?

How has the uncertainty around future charges for planning applications affected your council?

How does your council ensure that it has a sustainable financial plan for the increasing demand for adult social care?

What assurance do you have that your council's owned trading companies have effective governance arrangements in place?

What actions has your local authority taken to ensure that it is best place to achieve the financial accounts early closure timetable of 31 July 2018?

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 financial settlement: consultation

https://www.gov.uk/government/consultations/local-government-finance-settlement-2018-to-2019-technical-consultation

Planning fees

http://www.publicfinance.co.uk/news/2017/08/governments-failed-planning-fees-promise-leaves-councils-ps1bn-bill

Adult social care

http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/the-road-ahead-for-managing-social-care

Commercialisation: local authority owned companies

http://www.publicfinance.co.uk/news/2017/07/local-authority-run-companies-should-avoid-too-many-council-board-members

EY Think Piece: 2017/18 early accounts closure

http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf

EY client resources and information

http://www.ey.com/gl/en/industries/government---public-sector/ey-citizen-today#recent-content

EY | Assurance | Tax | Transactions | Advisory

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.

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.

ED None

EY-000049300.indd (UK) 11/17. 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.

ey.com/uk