

Annual Governance Report 2013/14
Report by Head of Finance

Summary: This report appends the Annual Governance Report for 2013/14 prepared by the External Auditors, Ernst & Young.

Recommendations:

- (i) That the Annual Governance Report 2013/14 be noted.
- (ii) That the Letter of Representation in connection with the Audit of the Financial Statements for 2013/14 be signed by the Treasurer and Financial Adviser and the Chairman of the FSAC.

1 Annual Governance Report 2013/14

- 1.1 The External Audit of the Authority's 2013/14 Statement of Accounts is underway and the interim Annual Governance Report by Ernst & Young for 2013/14 is appended.
- 1.2 The External Auditors will be attending the meeting to present this item and answer any questions. A verbal report will be made at the meeting to provide an update on the progress of any audit work outstanding at the date of preparation of this report.
- 1.3 Appendix 2 to this report is the draft Letter of Representation in connection with the Audit of the Financial Statements for 2013/14, which is presented for consideration and approval by the Committee in order for it to be signed and sent to the External Auditors.

Background papers: Statement of Accounts 2013/14
Annual Governance Statement 2013/14

Author: Titus Adam
Date of report: 10 September 2014

Broads Plan Objectives: None

Appendices: APPENDIX 1 – Annual Governance Report 2013/14
APPENDIX 2 – Draft Letter of Representation 2013/14

Broads Authority

Financial Scrutiny and Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

10 September 2014



Building a better
working world

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Contents

- ▶ Executive summary
- ▶ Extent and progress of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues and findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees

Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 10 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Authority has prepared its financial statements well.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Authority's responsibilities

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Authority. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks		
1. The last full valuation of property, plant and equipment was 2012. This increases the risk that assets are not recorded at the correct value.	<ul style="list-style-type: none">• Reliance on management's valuations experts. This included comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations were identified; and• Tested the accounting treatment of valuations made in the year, including the assessment and treatment of impairments.	<ul style="list-style-type: none">• We agreed the revaluations to reports provided by the Authority's valuation expert. We assessed the qualifications, independence and scope of the Authority's valuation expert to ensure we could rely upon the valuation reports provided.• We have no issues to report from our comparison to industry trends and the accounting treatment of revaluations.

Addressing audit risks

Other audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
1. The lease on Yare House included a rent free period which was not correctly accounted for in 2012/13. Officers have identified the error and made a correction in the 2013/14 accounts.	<ul style="list-style-type: none"> Review the accounting treatment of the Yare House lease to ensure correctly stated. Sample test other lease agreements to ensure treatment is correct. 	<ul style="list-style-type: none"> We have no issues to report from our review of lease arrangements.
2. As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. For district Authority's the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.	<ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; Reviewed accounting estimates for evidence of management bias; Evaluated the business rationale for any significant unusual transactions; and Tested capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. 	<ul style="list-style-type: none"> Testing has not identified any material misstatement due to fraud and error.

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
 - ▶ Receipt of a Letter of Representation
 - ▶ Comprehensive income and expenditure transaction testing
 - ▶ Post employment benefits
 - ▶ Provisions
 - ▶ Movement in reserves statement
 - ▶ Notes to the Statement of Accounts
 - ▶ Post balance sheet events review
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

- Management have chosen to adjust all errors identified during the audit. There remain no unadjusted errors.

Corrected Misstatements

Our audit identified a number of further misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.

We do not consider any of these to be significant and therefore we have not provided further details of these corrected misstatements.

Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest,

We have no matters we wish to report.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Authority only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the Broads Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Authority's corporate performance management and financial management arrangements, we have regard to the following focus specified by the Audit Commission.

As reported in my Audit Plan, the scope of my work on value for money at the Authority is limited to:

- ▶ Reviewing the Annual Governance Statement (AGS);
- ▶ Reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- ▶ Other risk-based work as suitable.

My work is now complete:

- ▶ I am not aware of any relevant work of other relevant regulatory bodies or inspectorates;
- ▶ I have not identified any significant risks requiring specific risk-based work; and
- ▶ I have reviewed your AGS and I have no matters that I need to report.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 23 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of March 2014.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14
	£s	£s
Total audit fee – Code work	13,943	13,943

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report 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.



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Date 23rd September 2014

Our ref

Your ref

Dear Neil,

Broads Authority
Audit of Financial Statements 2013/14
Letter of Representation

This representation letter is provided in connection with your audit of the financial statements of the Broads Authority ("the Authority") for the year ended 31 March 2014. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Broads Authority as of 31 March 2014 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify – nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. We have approved the financial statements.

3. We confirm that the Responsible Officer has:

- Reviewed the accounts;
- Reviewed all relevant written assurances relating to the accounts; and
- Made other enquiries as appropriate.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. We believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences, identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Authority and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 11th July 2014.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities, related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than those events described in the financial statements, there have been no events subsequent to period end which require adjustment of, or disclosure in, the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates are appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate non-current assets and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours sincerely,

Chief Finance Officer

I confirm that this letter has been discussed and agreed at the Financial Scrutiny and Audit Committee on 23 September 2014.

Chairman of the Financial Scrutiny and Audit Committee