



# Broads Authority Audit results report

Year ended 31 March 2018

July 2018



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

10 July 2018

Dear Members

We are pleased to attach our audit results report for the forthcoming meeting of the Financial Scrutiny & Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Broads Authority for 2017/18. We will issue our final report after the Broads Authority meeting scheduled for 27 July 2018.

We have substantially completed our audit of the Broads Authority for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Financial Scrutiny & Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Financial Scrutiny & Audit Committee meeting 24 July 2018.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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](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 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 & 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 & 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 & 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

# Executive Summary



## Executive Summary

### Scope update

In our audit planning report presented at the 06 March 2018 Financial Scrutiny & Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

In our Financial Scrutiny & Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £158k. This level of materiality remains appropriate for the actual results for the financial year. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) is £118k.

### Status of the audit

We have substantially completed our audit of the Broads Authority financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- completion of subsequent events review
- receipt of the signed management representation letter
- Manager and Engagement Partner final reviews

We expect to issue the audit certificate at the same time as the audit opinion.

### Audit differences

There are no unadjusted audit differences and one adjusted audit differences arising from our audit. See section 2 and 4 for further information.



# Executive Summary

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## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Broads Authority's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Financial Scrutiny and Audit Committee.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we did not identify any significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



## Executive Summary

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### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

### Independence

Please refer to Section 8 for our update on Independence.



## 02 Areas of Audit Focus





## Areas of Audit Focus

# Significant risk

### Management Override

#### What is the risk?

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.

#### What judgements are we focused on?

ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.

We are also required to identify specific additional risks of management override. The specific additional risk identified is with regards to the inappropriate capitalization of revenue expenditure. An area where management can override accounting policies to reduce expenditure in year by transferring it to the balance sheet as a capital addition.

#### What did we do?

We performed mandatory procedures, including:

- testing of journal entries and other adjustments in the preparation of the financial statements
- A review to identify any significant unusual transactions
- Testing of accounting estimates, which is covered in areas of audit focus

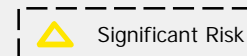
Capitalisation of expenditure is set out in the Authority's accounting policies at note xvii – Recognition and we have used that to assess the items identified as additions in 2017/18 to ensure they meet the requirements of the accounting policy and international financial reporting standards.

#### What are our conclusions?

Our testing has not identified any material misstatements from management override.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Testing of the capitalisation of revenue expenditure did not identify any items inappropriately capitalised.





## Areas of Audit Focus

What is the area of focus?	What did we do?	Our Conclusions
<p><b>Valuation of Land and Buildings</b></p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"><li>• Considered 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;</li><li>• Sample tested key asset information used by the valuer in performing their valuation including floor plans to support valuations based on price per square metre;</li><li>• Considered the annual cycle of valuations to ensure that assets had 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 were any specific changes to assets that have occurred and that these have been communicated to the valuer;</li><li>• Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated by using market indices to assess movements from last revaluation dates;</li><li>• Considered changes to useful economic lives as a result of the most recent valuation; and</li><li>• Tested accounting entries have been correctly processed in the financial statements,</li></ul>	<p>We did not identify any material misstatements from the work undertaken.</p> <p>The work performed by the valuer was based on reasonable assumption that we were able to corroborate through our sample testing.</p> <p>Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.</p> <p>The audit work undertaken on the entries to the financial statements identified one misstatement with regards to revaluations, which was above SAD but below Tolerable Error and effected the disclosure note only. This resulted in a reallocation of amounts between revaluation headings within the disclosure note.</p>



## Areas of Audit Focus

What is the area of focus?	What did we do?	Our Conclusions
<p><b>Pension Liability Valuation</b></p> <p>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.</p> <p>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.</p> <p>The information disclosed is based on the IAS 19 report issued to the Broads Authority by the actuary to the County Council.</p> <p>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.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• Liaised with the auditors of Norfolk Pension Fund, and obtain assurances over the information supplied to the actuary in relation to the Broads Authority;</li><li>• Assessed 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 considered any relevant reviews by the EY actuarial team; and</li><li>• Reviewed and test the accounting entries and disclosures made within the Broads Authority's financial statements in relation to IAS19.</li></ul>	<p>We have reviewed the assessment of the pension fund actuary by PWC and EY pensions and have undertaken the work required.</p> <p>A movement on the total fund asset between the estimated year end balance and the actual was identified by the pension fund auditor. The impact of this was an understatement of the Broads Authority's pension assets by £226k. This amount is material and has been adjusted in the accounts. See Section 4 for the adjustments.</p> <p>We have not identified any issues with the accounting entries and disclosures made within the financial statements.</p>



# Areas of Audit Focus

## Other matters

### IFRS 15 – Revenue from Customers with Contracts

The Broads Authority have undertaken an assessment on the new accounting standard that has been implemented from 1 April 2018.

The main source of income for the Broads Authority that may fall under the application of IFRS15 is the Annual tolls income (which makes up the bulk of the navigation Comprehensive Income and Expenditure account). The Broads Authority have undertaken a review of the source of these transactions and concluded that this is a statutory charge, as defined in The Broads Act. As such, IFRS 15 will not cause any material changes to the way that the Broads Authority account for annual tolls income as the 2018/19 CiPFA Code of Practice on Local Authority Accounting (the Code) has excluded statutory charges from the application of IFRS 15.

### IFRS 9 – Financial Instruments

This standard includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

The Broads Authority have considered the guidance issued in 2018/19 CiPFA Code and reviewed CiPFA's IFRS 9 Financial Instrument guidance.

They have concluded that they hold very basic instruments (debtors, creditors, PWLB loan, fixed term deposits and Investment property). All of their instruments (apart from investment properties which is valued at fair value) are held to collect contractual cash flows at specific dates so they would continue to be valued at amortised costs (although initially recognised at FV).

Therefore this is unlikely to have a material effect when the standard is introduced for the 2018/19 accounts.





## 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BROADS AUTHORITY

##### Opinion

We have audited the financial statements of the Broads Authority for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014.

The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement; and
- related notes 1 to 37, and the Expenditure and Funding Analysis.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Broads Authority as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK,

including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Narrative Report set out on pages 3 to 9, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the



# Audit Report

## Our opinion on the financial statements

financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, the Broads Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 10 and 11, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



# Audit Report

## Our opinion on the financial statements

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Broads Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Broads Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Broads Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Certificate

We certify that we have completed the audit of the accounts of the Broads Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### Use of our report

This report is made solely to the members of the Broads Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.





## 04 Audit Differences



# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

There were one corrected misstatements greater than £118k.

### Pension Adjustments

The Authority is an admitted body within the Norfolk Pension Fund. The Authority is reliant upon the Pension Fund’s Actuary to provide it with the relevant information in relation to the Authority’s share of assets and liabilities of the Pension Fund (through an IAS19 report) for inclusion within its financial statements.

The Actuary, within its IAS19 report (dated April 2018) estimated the Pension Fund asset value as at the 31 March 2018 and the Authority used the estimated figure within its draft financial statements. Our audit procedures focus on securing appropriate assurances from the Norfolk Pension Fund auditor. These procedures, identified that the actual asset valuation at the 31 March 2018 was £50.7 million greater than the Actuary’s estimate. The Authority’s share of this increase is £355k, based on their proportion of assets.

Given that the difference is above our materiality level (£158k) we asked the Authority to liaise with the Pension Fund Actuary given the impact on the Authority’s financial statements. The Pension Fund Actuary has, in light of the significance of the identified difference in asset valuations at the scheduled body level, updated the IAS 19 report that it provided to the Authority, taking into account the actual year end asset valuations. The Authority has adjusted the revised financial statements using the revised figures from the updated IAS 19 report, an actual movement of the Authority’s share of the assets of £226k. This adjustment is a result of a timing difference between an estimate made by the Actuary, and information that has become available since the time of their initial report. The Authority correctly used the information provided within the original IAS 19 report within its draft financial statements.

### Disclosure Adjustments

We identified one disclosure difference in note 12 Property, Plant and Equipment:

- the figure disclosed for revaluation increase/decrease recognised in the revaluation reserve was understated by £14k;
- and the figure disclosed in the revaluation increase/decrease recognised in the surplus/deficit on the provision of services was over stated by the same amount.

We have identified a number of other minor text and disclosure adjustments during the audit that have been adjusted by management in the financial statements.

## Summary of unadjusted differences

### Unadjusted Audit Differences

There are no other uncorrected misstatements.





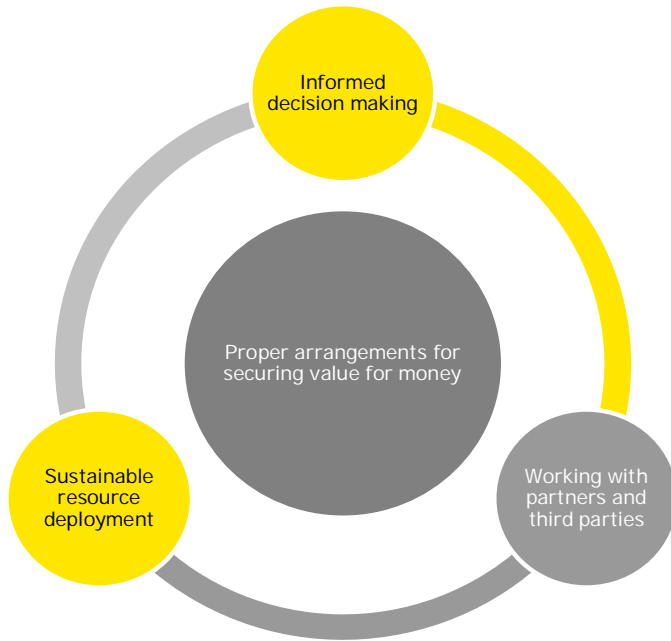
05

## Value for Money Risks





# Value for Money



## Background

We are required to consider whether the Council 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.

## Overall conclusion

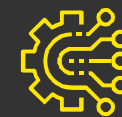
We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.





## 06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### 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, is specified by the National Audit Office.

We have no issues to raise.

## Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no matters to report.





07

## Assessment of Control Environment





# Assessment of Control Environment

## Financial controls

It is the responsibility of the Broads 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 Broads Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

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.



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## Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 12 February 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Financial Scrutiny & Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Financial Scrutiny & Audit Committee on 24 July 2018.

# Independence



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in have been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

### Fee Analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 217/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£
Total Audit Fee – Code work	13,943	13,943	13,943





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## Appendices






## Appendix C

# Required communications with the Financial Scrutiny & Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 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.	Audit planning report – February 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – February 2018
Significant findings from the audit	<ul style="list-style-type: none"><li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li><li>• Significant difficulties, if any, encountered during the audit</li><li>• Significant matters, if any, arising from the audit that were discussed with management</li><li>• Written representations that we are seeking</li><li>• Expected modifications to the audit report</li><li>• Other matters if any, significant to the oversight of the financial reporting process</li></ul>	Audit results report – July 2018  No matters to report.




## Appendix C

		 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: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about the Broads Authority's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report – July 2018
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Financial Scrutiny and Audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Financial Scrutiny and Audit Committee 24 <sup>th</sup> July 2018
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Financial Scrutiny &amp; Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:                             <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to the Financial Scrutiny &amp; Audit Committee's responsibility.</li> </ul>	Audit results report – July 2018  No identified fraud.




## Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>Audit results report – July 2018</p> <p>No matters to report.</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report – February 2018</p> <p>Audit results report – July 2018</p>

## Appendix C - continued

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	We have obtained all confirmations requested.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• 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</li> <li>• Enquiry of the Financial Scrutiny &amp; 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 Audit Committee may be aware of</li> </ul>	Audit Results Report – July 2018
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report – July 2018

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report – July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report – July 2018
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report – July 2018
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report – February 2018 Audit results report – July 2018



# Management representation letter

## Management Rep Letter

This letter of representations is provided in connection with your audit of the financial statements of Broads Authority ("the Authority") for the year ended 31 March 2018. 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 Authority financial position of the Broads Authority as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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 Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Authority, 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 (or results of operations) and cash flows of the Authority in accordance with the CIPFA LASAAC

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.

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

4. As members of management of the Authority, 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 LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.

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

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Authority's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

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

3. 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.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Authority (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

## Management representation letter (continued)

### Management Rep Letter

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Authority's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### C. 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;
- 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 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: 27 July 2018.

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 year 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 believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. 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.

#### D. 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. There are no guarantees we have given to third parties.

## Management representation letter (continued)

### Management Rep Letter

#### E. Subsequent Events

1. Other than described in Note 6 to 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.

#### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Report.

2. We confirm that the content contained within the other information is consistent with the financial statements.

#### G. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

#### H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current assets and have adequately considered the qualifications of the specialists 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 specialists 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 specialists.

#### I. Estimates

Valuation of Pension Asset/Liabilities and Property, Plant and Equipment Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We confirm that the significant assumptions used in making the valuation of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

#### J. 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.

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