

Maldon District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1More 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.

Executive Summary



Executive Summary

We are required to issue an annual audit letter to Maldon District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 31 August 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 September 2017

In January 2018 we will also issue a report to those charged with governance of the Council summarising the claims certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson
Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 30 March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

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

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the 31 August 2017 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested journals that met our criteria and agreed these to supporting documentation.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. Our work on the property valuations focused on verifying and critically challenging the basis of valuation adopted by the valuer in relation to the Council's property, in particular for specialist assets which are valued on a depreciated replacement costs basis. We engaged our Internal specialists to review a sample of assets and gained sufficient assurance that the values reported in the financial statements were not materially misstated.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p>

requirements to be capitalised.	<p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>
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Other Key Findings	Conclusion
<p>Valuations - reliance on experts</p> <p>We identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations. These areas are both highly material balances in the Council's accounts which are based on estimates and professional judgement.</p> <p>In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.</p> <p>We have also considered the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area.</p>	<p>Pensions: We have assessed and are satisfied with the competency and objectivity of the Council actuaries: Barnet Waddingham. Our own pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries and conclude we can place reliance on them. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. We noted however that the methodologies used to derive the discount rate and RPI inflation assumptions do not take adequate account of the specific duration of the scheme's liabilities. Although we concluded that these issue did not lead to a material misstatement of the pensions liabilities in the 2016/17 accounts, in future years, this could lead to unacceptable assumptions.</p> <p>Property valuations: We are satisfied that the Council's valuers, Wilks Head & Eve, have the necessary qualifications and experience. We engaged our internal valuation specialist to review and critically challenge the basis and method of valuation adopted for a sample of assets, including particularly specialised assets which are valued on a depreciated replacement costs basis which is a more judgemental valuation basis. We have concluded that there are elements of the Specialist's approach to valuation which are formulaic and are not consistent with UK valuation practice, given the characteristics of the properties being valued and considering the facts and circumstances at the valuation date. For the sample of properties we reviewed, we have however concluded that, despite these issues, the values appear to be in a reasonable range albeit at the upper end. We have considered the potential impact of these issues on the remainder of the Council's property, plant and equipment balance and have concluded that the overall valuation estimate is not unreasonable.</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

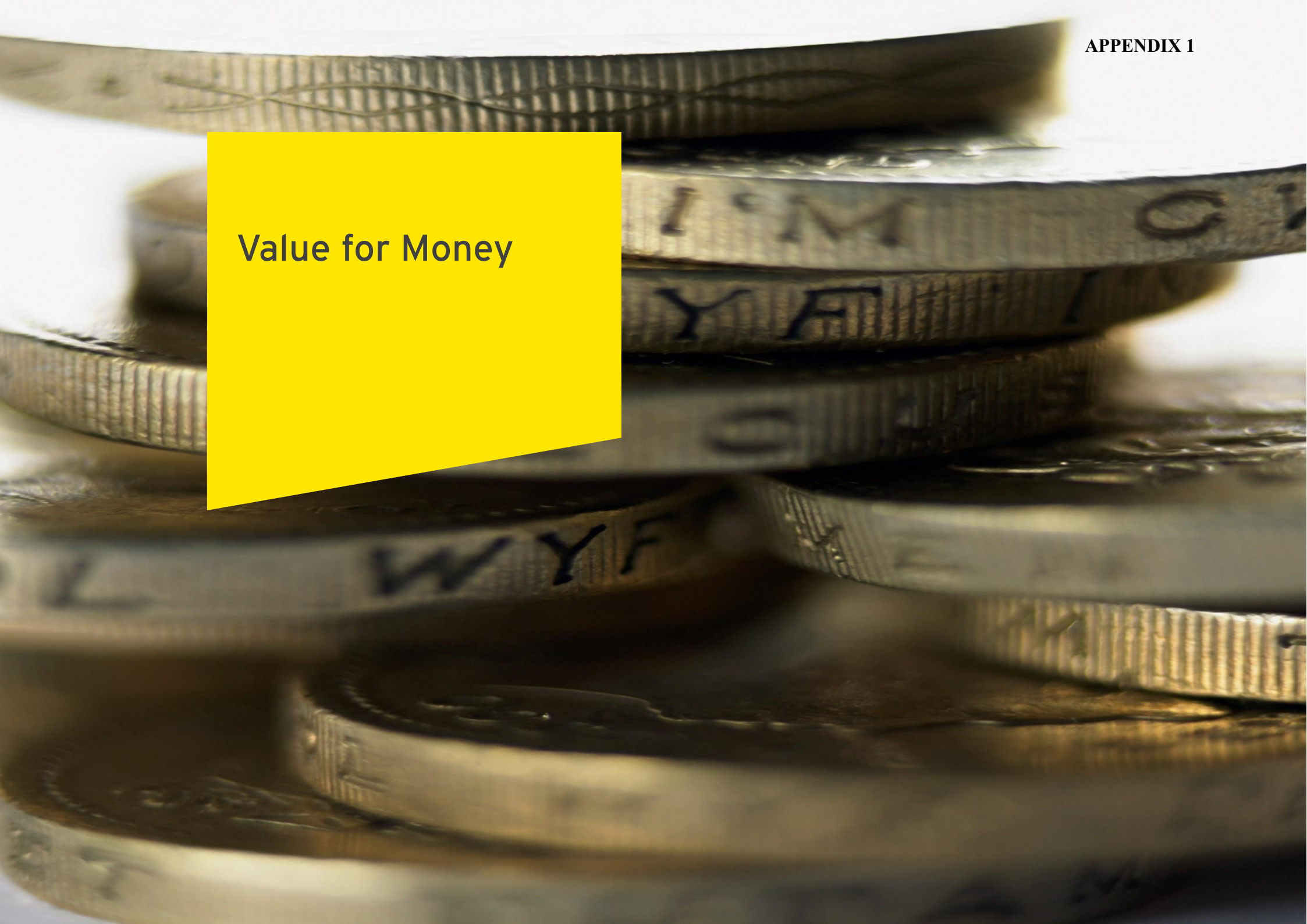
Item	Thresholds applied
Planning materiality	<p>We determined materiality to be £657,960 (2016: £642,340), which is 2% of gross expenditure reported in the accounts.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £32,900 (2016: £32,117)</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits:
- Related party transactions;
- Member's allowances.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Value for Money

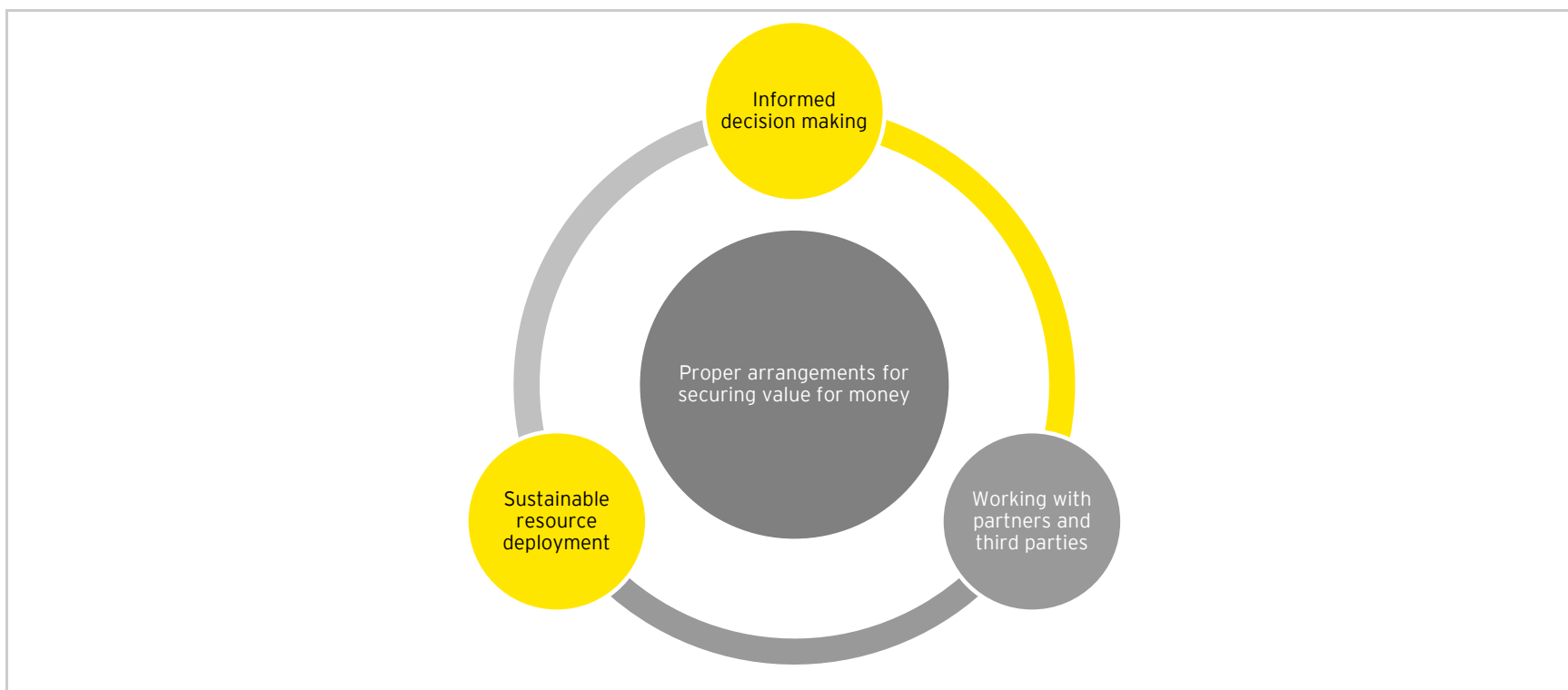


Value for Money

We are required to consider whether the 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.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We have performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued an unqualified value for money conclusion on 28 September 2017.

As part of our work we noted that to date the Council has responded well to the financial pressure facing public sector bodies, but continues to face significant financial challenges over the next three years, with uncertainty in the levels of future funding it will receive. The Council's Medium Term Financial Strategy (MTFS) identifies budget gaps of just under £1million at the end of 2019/20. The Council is developing plans to address these gaps, and as part of this has undertaken a review of income generation opportunities. The MTFS includes planned use of reserves of £0.7 million in 2017/18. In 2016/17, the Authority reported an under spend against budget. We also considered the issues raised by local electors related to the Council's procurement arrangements. We concluded that although there have been some weaknesses in specific procurements these issues were not of sufficient significance to impact on our overall value for money conclusion. We also noted that a number of the issues were identified through the Council's own internal review and that the Council is taking action to address these issues. We will monitor progress in this area as part of our 2017/18 value for money conclusion assessment.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We received two objections to the 2016/17 financial statements from members of the public related to the Council's procurement processes. We considered these objections and decided not to accept them for consideration on the basis that the costs of dealing with the objections would be disproportionate to the sums to which the objections relate. We also considered whether the issues raised indicated that there were serious concerns about the way the Council is managed or led. We concluded that they did not and the objections therefore had no impact on the financial statements or value for money conclusion. We did however note that the Council has recognised that there have been some weaknesses in

procurement arrangements in a number of areas which have been identified through an internal review. The Council is taking action to address these issues and we will monitor progress in this area as part of our 2017/18 value for money conclusion assessment.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 31 August 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

Focused on your
future



Focused on your future

Area	Issue	Impact
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From next year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has taken some steps in 2016/17. For example it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> ▶ Issued a thought piece on early closedown ▶ As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales ▶ Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. ▶ Arranged an early closedown workshop in October 2017. <p>We have agreed with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> ▶ Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations ▶ Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure
<i>IFRS 9 Financial Instruments</i>	<p>This standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured 	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets

Area	Issue	Impact
	<ul style="list-style-type: none"> ▶ How the impairment of financial assets are calculated ▶ Financial hedge accounting ▶ The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<ul style="list-style-type: none"> ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items <p>The Authority is awaiting clarification of the exact requirements before investing time in the above work.</p>
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, the new standard will have a significant impact for local authorities who lease in a large number of assets, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Authority is has yet to commence work in this area due to the timing of implementation.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 30 March 2017 Audit Plan.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee - Code work	54,965	49,275	49,275	49,275
Total Audit Fee - Certification of claims and returns	To be confirmed*	13,283	13,283	13,200

In 2016/17 we have proposed an additional fee of £5,690. This comprises:

- £3,500 in respect of additional procedures relating to Property, Plant and Equipment and Investment Property Valuations.
- £2,190 in respect of additional costs incurred relating to responding to the objections to the financial statements and subsequent elector correspondence.

*we have not yet completed our audit of the 2016/17 housing subsidy claim and therefore are not able to confirm the final fee for 2016/17.

The scale fee variations have been agreed with management and are subject to PSAA approval.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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