

Fenland District Council

Corporate Governance Committee

External Audit Progress Report

19 June 2018



Building a better
working world



Ernst & Young LLP Tel: 01582 643000
400 Capability Green Fax: 01582 643001
Luton www.ey.com/uk
Bedfordshire LU1 3LU

19 June 2018

Corporate Governance Committee
Fenland District Council

Dear Committee Member

Audit Progress Report

We are pleased to attach our Audit Progress Report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2017/18 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements.

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

Yours faithfully

A handwritten signature in dark ink, appearing to be 'Neil Harris', written over a light blue horizontal line.

Neil Harris
Associate Partner
For and behalf of Ernst & Young LLP

Contents

2017/18 audit 1

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

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

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

This report is made solely to the Audit Committee and management of Fenland District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Fenland District Council 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 Audit Committee and management of Fenland District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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.

2017/18 audit

Audit status

This is our progress report for the 2017/18 audit year. Appendix A is a summary of the key deliverables and progress against these.

Audit Planning

We audit the Council's Statement of Accounts in accordance with the requirements of the National Audit Office's 2015 Code of Audit Practice, auditing standards and other professional requirements.

At the conclusion of our work, we provide an opinion on whether the financial statements give a true and fair view of the financial position of the Council and of its expenditure for the financial year under audit.

We completed our initial planning for the 2017/18 audit and issued in our Audit Plan in February 2018.

Significant risks

Our Audit Plan set out the significant and other risks we identified as part of planning procedures that influenced our audit strategy. The significant risks identified are:

- Risk of fraud in revenue and expenditure recognition

In our Audit Plan we set out that this risk is focused around those items of income and expenditure which are non-routine and involve more management estimation and judgment such as year-end income and expenditure accruals and provisions. We have carefully considered the revenue and expenditure streams of the Council and considered each against the risk of fraud in revenue and expenditure recognition. In making this assessment, we have considered:

- Our assessment of the control environment at Fenland District Council relevant to opportunities and incentives to commit revenue recognition fraud
- The statutory framework in place to regulate local government finance
- The nature of the financial regime established in local government
- The nature of the financial transactions undertaken by Fenland District Council, and whether these present both the opportunity and incentive to engage in material revenue manipulation

Having considered each of the streams during our interim visit, we have concluded that, in view of our understanding of the revenue and expenditure streams, the risk of material misstatement arising from inappropriate expenditure recognition in respect to NNDR Appeals Provision calculation has a high likelihood of occurrence and is likely to be of a size which would be material to the users of the financial statements. This is because of the extent of estimation and judgement that management, with specialist support, need to calculate the provision and the impact on the Council's provisioning of the new 2017 rateable value listing. We have therefore been unable to rebut the risk of fraud in revenue and expenditure recognition. We will keep this assessment under review and report to you any changes to this assessment.

- Management override

We have considered at planning and during our interim visit the generic risk factors that could indicate how specific risks of management override manifests itself at the Council, such as the financial position and historic performance against budget. We have also considered the specific additional risks of management override as they relate to local government accounts. Based on our consideration of the key areas susceptible to management override we have concluded that the area that management have the greatest opportunity to override controls is within NNDR Appeals Provision as documented above.

- Valuation of the Council's Leisure Centres

There has been no change to our risk assessment since the audit plan in respect to the valuation of the council's leisure centres.

We will update the Corporate Governance Committee with our findings in our Audit Results Report in July 2018.

Other areas of audit focus

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

- Valuation of land and buildings

There has been no change to our risk assessment since the audit plan in respect to the valuation of the council's land and buildings.

- Pension liabilities

There has been no change to our risk assessment since the audit plan in respect to the council's pension liabilities.

- Early closedown of accounts

Previously we had identified this as an area of increased focus and risk due to the changes in the requirements to approve the accounts by 31st May and audit the accounts by 31st July 2018. Having reviewed the Council's closedown plan and further discussion and work undertaken as part of the interim audit we have concluded that this is no longer considered an area of risk for the 2017/18 audit.

In order to facilitate the earlier statutory deadline for the audit of the financial statements, we agreed with the Council a range of early substantive testing to be undertaken in late January/early February. We have completed work in the following areas:

Interim testing	EY Update
Income testing period 1-9	Interim work complete with no matters arising.
Expenditure P1-9	Interim work complete with no matters arising.
PPE - Additions P 1-9	Interim work complete with no matters arising.
PPE- Disposals P1-10	Interim work complete with no matters arising.
Opening balances	Interim work complete with no matters arising.
Related party transactions	Interim work complete with no matters arising.

Grant income	Interim work complete with no matters arising.
Significant contract review	Interim work complete with no matters arising.
Collection fund set up analytical review	Interim work complete with no matters arising.

We also undertook a range of early substantive testing which was undertaken in early May. We have completed work in the following areas:

Early testing	EY Update
Investments	No matters arising from the work completed so far however, additional confirmation requested due to additional investments made prior to year-end.
Borrowings	Complete with no matters arising subject to agreement to approved financial statements.
Collection Fund + disclosures	Complete (excluding NNDR Appeals Provision and Council Tax Bad Debt Provision) with no matters arising subject to agreement to approved financial statements. We have been unable to complete the work around NNDR Appeals Provision due to additional consideration required around the management expert WHE. There are outstanding queries around the appropriateness of the amount that the council has provided for against Council Tax arrears so we have been unable to complete this task.
Pension + disclosures	Complete subject with no matters arising to agreement to approved financial statements and response from auditor of the Cambridgeshire Pension Fund.
Cash & Cash Equivalent	Complete with no matters arising subject to agreement to approved financial statements.
Members Allowances	Complete with no matters arising subject to agreement to approved financial statements.
Employee Remuneration	Complete with no matters arising subject to agreement to approved financial statements and agreement to payslips on payroll system.
External Audit Costs	Complete subject to agreement to approved financial statements. It has been agreed that an explanatory comment will be added to clarify the adjustments made to the current year figure.

We have completed our walkthroughs of the Council's material financial systems which has confirmed our understanding of the systems in place at the Council.

We will be undertaking our audit of the draft financial statements in July 2018 and will report our findings in our Audit Results Report to the 20th July Corporate Governance Committee.

Audit Committee Briefing

Our Audit Committee Briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to new and existing local government bodies.

The current briefing was circulated to members outside of the meeting. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com