

Agenda Item No:	5	
Committee:	Corporate Governance Committee	
Date:	4 February 2020	
Report Title:	Annual Audit Letter 2018/19	

Cover sheet:

1 Purpose / Summary

To receive the independent external auditors, Ernst & Young (EY), Annual Audit Letter for 2018/19.

2 Key issues

- The external audit findings for 2018/19 have been reported to the Corporate Governance Committee throughout the year. The Annual Audit Letter summarises the results of the audit work for members of the Council.
- The external auditors Audit Results Report for 2018/19 was presented to this committee on 5 November 2019. The auditor's certificate was issued on 27 November 2019 confirming an unqualified opinion on the Financial Statements for 2018/19.
- In all significant respects the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and an unqualified value for money conclusion has been given.
- Members will be aware of the resourcing difficulties encountered by EY during 2019 which resulted in a delay in completing the accounts audit and issuing of their audit certificate for 2018/19. EY are currently finalising their plans for the 2019/20 audits and these will be presented to this Committee at the next meeting.

3 Recommendation

- It is recommended that Members note the content of the report.

Wards Affected	All
Forward Plan Reference	N/A
Portfolio Holder(s)	Cllr John Clark, Chairman of Corporate Governance Committee Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Peter Catchpole, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	2018/19 Audit Results Report (ISA260)

Fenland District Council

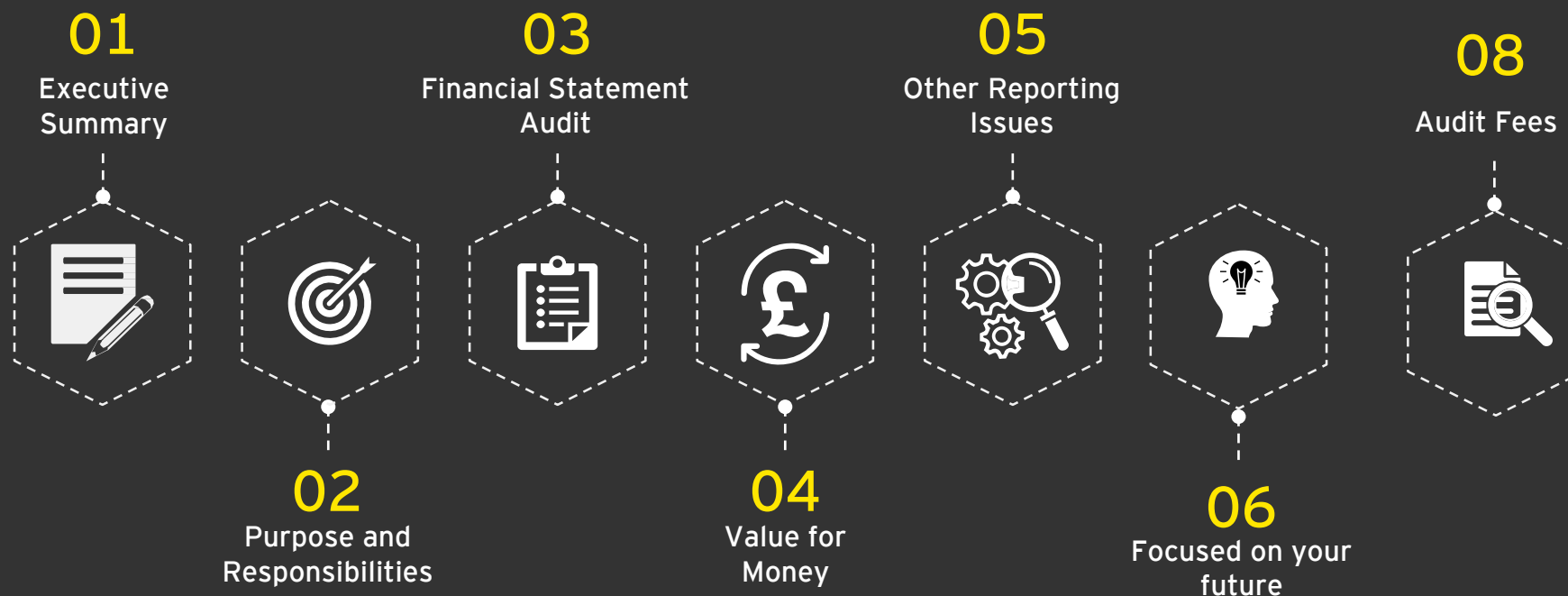
Annual Audit Letter for the year
ended 31 March 2019

19 December 2019

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

Contents



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.psa.co.uk).

This 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 April 2018)' 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 Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Fenland District Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. 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 2019 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 £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

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 1 November 2019.
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 27 November 2019.

In March 2020 we will also issue a report to those charged with governance of the Council summarising the 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.

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities



Purpose and Responsibilities

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 2018/19 Audit Results Report to the 5 November 2019 Corporate Governance 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 of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 15 January 2019 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 2018/19 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 you Whole of Government Accounts return. The Council is below the specified audit threshold of £500 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. 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.



03

Financial Statement Audit



Financial Statement Audit

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 27 November 2019.

Our detailed findings were reported to the 5 November 2019 Corporate Governance Committee.

Risk of management override of control

What was 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. Linking to our risk of fraud we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment. The specific procedures undertaken to address this are set out on the next page. This page details the standard procedures we undertake to respond to the risk of fraud and error on every engagement.

What did we do and What judgements are we focused on?

We performed mandatory procedures, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for significant unusual transactions.

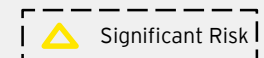
ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.

What are our conclusions?

We did not identified any material weaknesses in controls or evidence of material management override.

We did not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

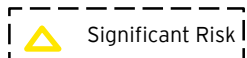




Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure



What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

As the Council is more focused on its financial position over medium term, we have considered the risk of manipulation to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme (see above).

What did we do and what judgements are we focused on?

In order to address this risk we carried out a range of procedures including:

- ▶ Obtaining an analysis of capital additions in the year, reconciling to the Fixed Assets Register (FAR), and reviewing the descriptions to identify whether there are any potential items that could be revenue in nature;
- ▶ Performing sample testing on additions to Property, Plant and Equipment, ensuring that they had been correctly classified as capital and included at the correct value, to identify any revenue items that have been inappropriately capitalised; and
- ▶ Testing the appropriateness of journal entries recorded in the general ledger moving expenditure items from revenue codes to capital codes.

What are our conclusions

Our testing did not identify any items incorrectly classified as revenue expenditure.



Areas of Audit Focus

Other Areas of Audit Focus

Valuation of land and buildings - inherent risk

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's 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.

The Council will engage an external expert (valuer) who will apply a number of complex assumptions to these assets. Assets are assessed annually to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk that these assets may be misstated.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What did we do and what judgements are we focused on?

In order to address this risk we carried out a range of procedures including:

- ▶ We have considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ We have undertaken sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ We have considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered whether there were any specific changes to assets and that these had been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2018/19 and confirmed that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries had been correctly processed in the financial statements.

What are our conclusions

Following full consideration of their work, we placed reliance on the Council's valuation expert.

We did not identify any material misstatements from inappropriate judgements being applied to the property valuation estimates.



Areas of Audit Focus

Other Areas of Audit Focus

Pension Liability Valuation - Inherent Risk

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £64.4 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates

What did we do and what judgements are we focused on?

We have performed the following procedures:

- ▶ Liaised with the auditors of Cambridgeshire Pension Fund, and obtained assurances over the information supplied to the actuary in relation to Fenland District Council;
- ▶ 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
- ▶ Reviewed and tested the accounting entries and disclosures made within Fenland District Council's financial statements in relation to IAS19.

What are our conclusions

We assessed and were satisfied with the competency and objectivity of the Council's actuary. EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries and have deemed the assumptions used to be reasonable. In addition, there was an ongoing national issue in relation to IAS19 pension fund liability disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling.

The draft financial statements had recognised this matter as a contingent liability. However, since the year-end there was some movement in the understanding and assessment of the likely outcome and in the potential impact of any outcome, which has led to the need for a re-assessment of the scheme liabilities under IAS19, together with supporting disclosure notes. The Guaranteed Minimum Pension ruling has also had an impact on the pension liability.

In summary, the changes would increase the past service costs and in turn the pensions liability figure by approximately £0.428 million. Management chose not to adjust the financial statements for this item. This rationale was considered and approved by the Corporate Governance Committee and the full rationale was provided to us within the Council's Letter of Representation.



Areas of Audit Focus

Other Areas of Audit Focus

New Accounting Standards - inherent risk

What is the risk?

The CIPFA Code of practice on local authority accounting (the Code) requires the Council to comply with the requirements of two new accounting standards for 2018/19. These standards are:

IFRS 9 financial instruments:

This new accounting standard will change how financial assets are classified and measured, how the impairment of financial assets are calculated; and the disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Code provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

IFRS 15 Revenue from contracts:

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Code provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non-domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced

What did we do and what judgements are we focused on?

- ▶ Assessed the Council's implementation arrangements and impact assessment of the application of the new standard, transitional adjustments and accounting for 2018/19;
- ▶ Considered the classification and valuation of financial instrument assets;
- ▶ Reviewed the new expected credit loss model impairment calculations for assets;
- ▶ Considered the application to the Council's revenue streams, and where relevant tested to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Checked additional disclosure requirements.

What are our conclusions

We concurred with management that the introduction of these standards did not have a material impact on the Council's financial statements.

Financial Statement Audit (cont'd)

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 planning materiality to be £1.1 million (2018: £1.1 million), which is 2% of gross expenditure on provision of services reported in the accounts of £55 million adjusted for parish precepts, precepts paid to internal drainage boards, gains/losses on the disposal of fixed assets, and interest charges.</p> <p>We consider gross expenditure on provision of services 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 Corporate Governance Committee that we would report to the Committee all audit differences in excess of £55,000 (2018: £57,000)</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: reduced materiality level of £5,000 applied in line with bandings disclosed.
- ▶ Related party transactions and members allowances: reduced materiality level applied equal to the reporting threshold.

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

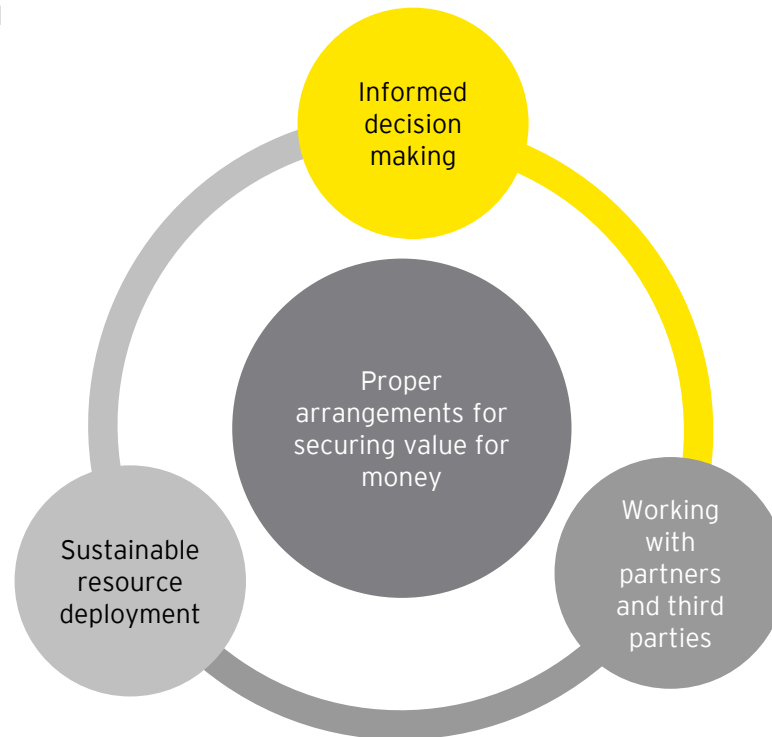


04 Value for Money

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 did identify one significant risk in relation to these criteria - Sustainable resource deployment: Achievement of savings needed over the medium term .

As a result of completing our planned procedures, we were satisfied that the Council's General Fund reserve balance at the 31 March 2022 will remain above the Council's approved minimum level.

We therefore issued an unqualified value for money conclusion on 27 November 2019.



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 did not receive any objections to the 2018/19 financial statements from members of the public.

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.



Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to Corporate Governance Committee on 5 November 2019. 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.

We did not identify any significant deficiencies in internal control during our audit.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 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 Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background shows the perforated metal of the cabinet drawers.

08 Audit Fees

Audit Fees

Our final fee for 2018/19 as expected, at the scale fee set by the PSAA and reported in our 1 November 2019 Annual Results Report.

Description	Final Fee 2018/19 £'s	Planned Fee 2018/19 £'s	Scale Fee 2018/19 £'s	Final Fee 2017/18 £'s
Total Audit Fee - Code work	37,823	37,873	37,873	49,186
Other Audit work - Harbour Act 1964 Audit Report	2,600	2,600	N/A	1,537
Total Audit Fee - Certification of claims and returns	TBC (Note 1)	14,960	N/A	14,262

Note 1 - From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

- ▶ As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to the housing benefit subsidy claim. There is therefore no scale fee prescribed by PSAA as it is now no longer within their remit.
- ▶ The planned fee shown, is based on the level of error within the current claim and the work required to certify that. This may change dependent on the level of error within the claim under review.

We will confirm our final fees following the completion of our work and report this within our Annual Grant Certification Report.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2018 EYGM Limited.
All Rights Reserved.

ED None

EY-000070901-01 (UK) 07/18. CSG London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com