



Fenland District Council Audit Results Report

Year ended 31 March 2018

30 July 2018



Building a better
working world



Private and Confidential

30 July 2018

Dear Corporate Governance Committee Members

We are pleased to attach our final audit results report following the meeting of the Corporate Governance Committee on 27 July 2018. This report summarises our audit conclusion in relation to the audit of Fenland District Council for 2017/18.

We have now completed our audit of Fenland District Council for the year ended 31 March 2018.

We confirm that we have issued an unqualified audit opinion on the financial statements in the form at Section 4 , meeting the statutory deadline of 31 July 2018. 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 Corporate Governance 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.

Yours faithfully

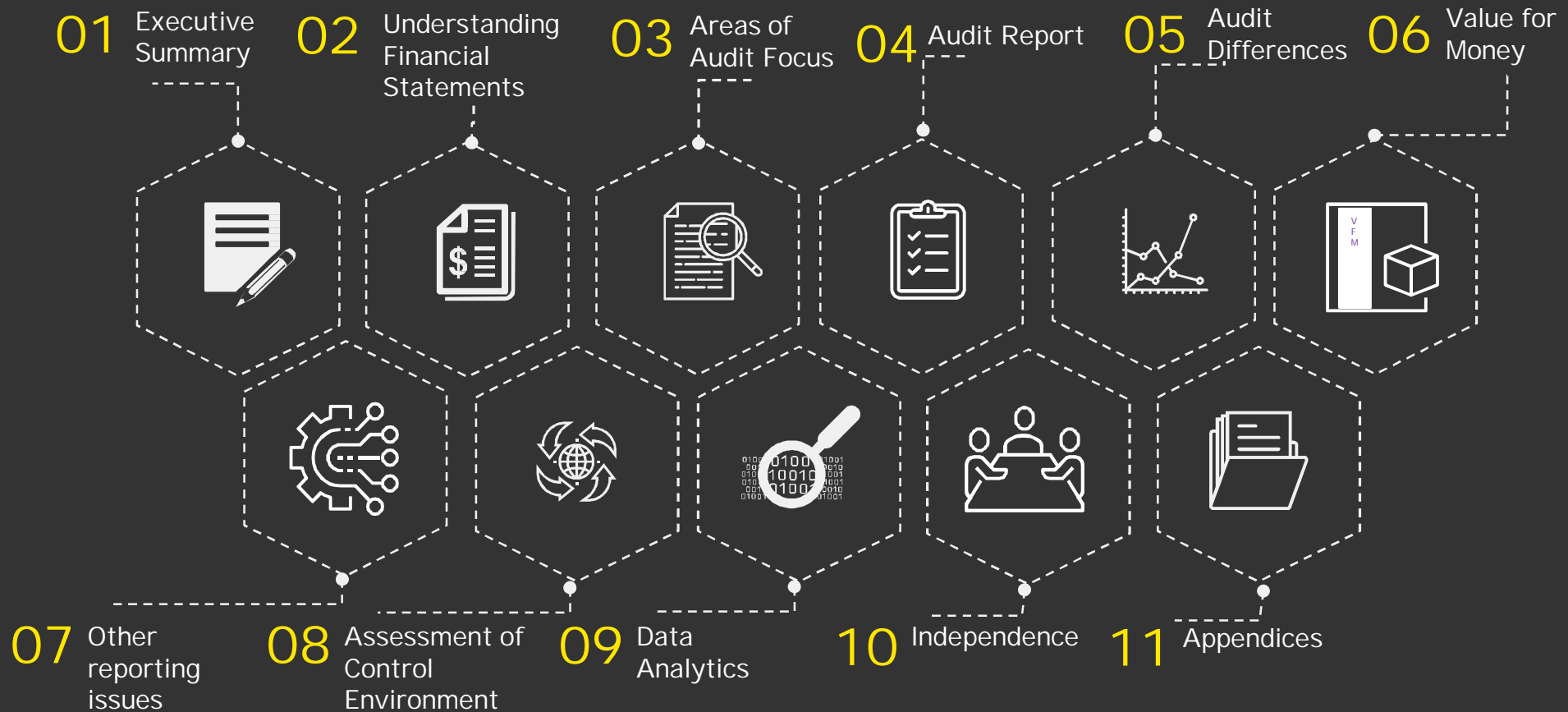
Neil Harris

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). 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 Corporate Governance 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 Corporate Governance 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 Corporate Governance 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.



01

Executive Summary



Executive Summary

Scope update

In our Audit Plan presented to the 7 February 2018 Corporate Governance Committee, we provided you with an overview of our audit scope and approach for the audit of the statement of accounts. We carried out our audit in accordance with this plan.

- Changes in materiality: In our Audit Plan, we communicated that our audit procedures would be performed using a materiality of £1.1 million. 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, and collection fund), is £55,000.
- Significant risks: We have updated the focus and response to the significant risks we identified in our Audit Plan as communicated in our report to committee on 19 June 2018. We are clear that our response to the significant risk of management override is to focus on those areas where there is more incentive and opportunity for management to override control. We have identified two material risks related to fraud, covering the risk of fraud in revenue recognition and the inappropriate capitalisation of revenue expenditure which we consider as separate significant risks. This is set out more fully in Section 3 of the report.

Status of the audit

We have completed our audit of the Authority's statement of accounts for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Plan.

We have issued, on 30 July 2018, an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. We have also issued the audit certificate at the same time as the audit opinion.

Executive Summary

Audit differences

As detailed in section 3 of the report we identified a variance in the valuation of Hudson Leisure Centre due to the incorrect inclusion of an All Weather Pitch and accounting estimation for Pension Liability as a result in pension investment movements from December 2017 to March 2018. The Council has requested an updated IAS19 report from their actuary to enable them to update the statement of accounts. We will verbally update the committee of the progress of this work.

There are no other unadjusted or adjusted audit differences arising from our audit.

We identified some presentational and disclosure issues which have been adjusted by management, and are not detailed in this report.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Authority's statement of accounts. 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 Corporate Governance Committee.

Control observations

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

During the course of our normal audit work, we have not identified any significant deficiencies in internal control or any other matters relating to internal controls which we believe should be brought to the attention of the Corporate Governance Committee.

Executive Summary

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 Plan we identified two significant risks relating to:

- the actions facing the Authority to address longer term financial resilience issues; and
- the Authority's ability to sign the accounts by 31 July 2018.

The risks we identified impacted two aspects of the value for money arrangements:

- Taking informed decisions
- Deploying resources in a sustainable manner

We have included in Section 6 the detailed work we carried out in response to this risk. We are satisfied that the Authority has proper arrangements in place in respect for taking informed decisions and deploying resources in a sustainable manner.

The Authority has met the deadline for published accounts by 31 July 2018.

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 are not required to perform any procedures on the Whole of Government Accounts submission, as the Authority is below the threshold for audit.

We have no other matters to report.

Independence

We have no matters relating to our Independence to bring to your attention.

Please refer to Section 10 for our update on Independence.

The background of the slide features a close-up, shallow depth-of-field photograph of Euro currency. In the foreground, a 1 Euro coin is in sharp focus, showing its intricate design and the word 'EURO'. Behind it, another coin is slightly out of focus. The background is filled with the blue and green patterns of Euro banknotes, with a large '0' visible on the left side. A dark grey horizontal bar is positioned across the lower third of the image, containing the slide's title and a yellow hexagonal icon.

02

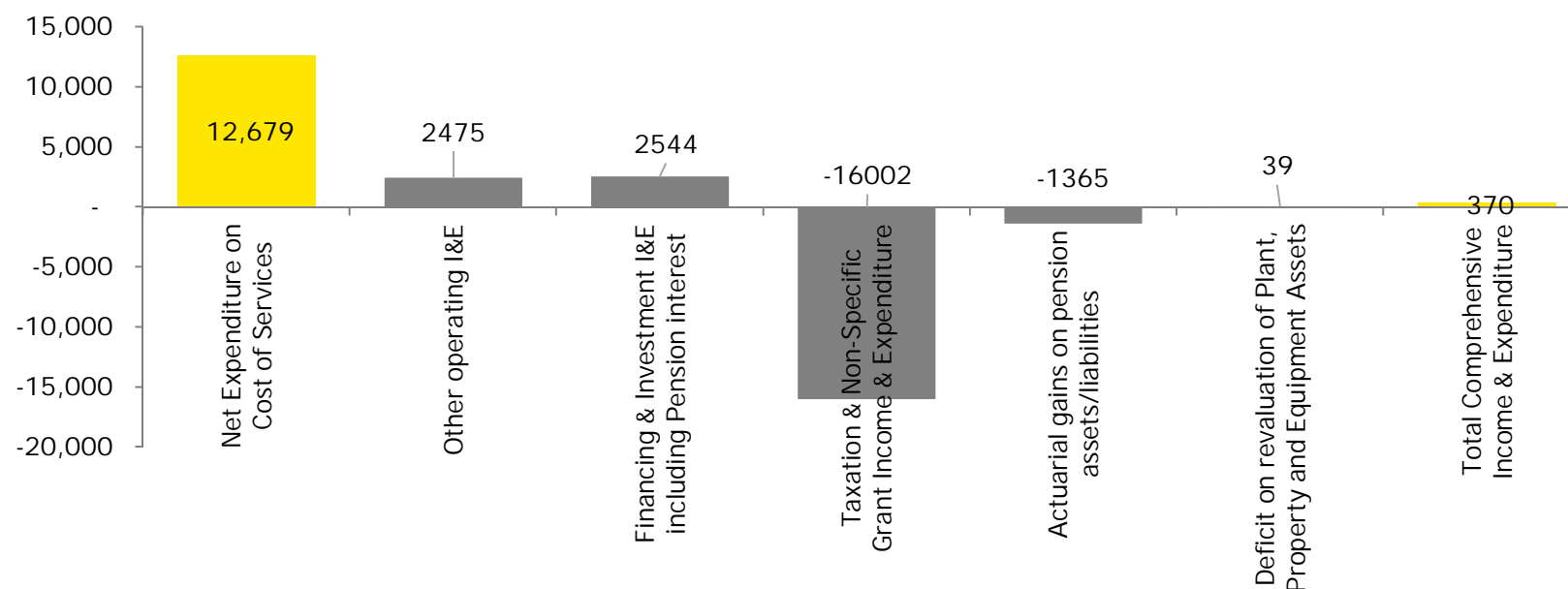
Understanding Financial Statements



Understanding the financial statements

Key components of net expenditure

Net expenditure for the year ended 31 March 2018 was £12.7m, an increase of £0.4m from the prior year. During the year significant events have occurred with an impact on the underlying financial position of the Authority. The following provides an overview of the material items:



Total net expenditure on the provision of services (£1.7 million) is consistent with the prior year. The following provides an overview of the material items:

- Gross income of £59.4 million is comprised of government grant income of £36.6 million, Council Tax of £8.6 million, Business Rates of £3.6 million and other service income (including fees and charges) of £9.7 million.
- The majority of grant income (£36.6 million) is Housing Benefit Subsidy of £28.2 million, New Homes Bonus of £1.7 million and Capital Grants of £1.1 million.
- Total gross expenditure on cost of services of £61.1 million relates largely to staff costs of £16.1 million, service expenses of £39.3 million and precepts and levies of £3.6 million.



03 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition & Risk of Management override: Misstatements due to fraud or error

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. 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.

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.

What judgements are we focused on?

- Inappropriate valuation of NNDR appeals provision

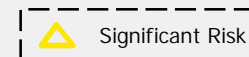
What did we do?

- Undertook procedures to review the Council's methodology to assess the level of NDR appeals and the subsequent provision.
- Review the calculation of the NDR appeals provision to supporting evidence, and assess the reasonableness of the calculation, ensuring it has been prepared in accordance with associated guidance and complying with IAS37.
- Recalculate the appeals provision, as appropriate, to ensure accuracy.
- Confirm the Council has correctly identified their share of the provision within their provision note.

What are our conclusions?

Work has been concluded and our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the Council's financial position





Areas of Audit Focus

Significant risk

Valuation of Council's Leisure Centres

What is the risk?

One of the Council's key strategic developments is the externalization of its Leisure Centres. These change in value every year. As such, the Council might have an incentive in maximizing the value of the asset to increase the proceeds that would come with externalization.

The inherent risk assessment for Land and Buildings valuation is already high, and there is an inherent risk with the valuation of Land and Buildings. However, EY Estates raised some concerns in the prior year regarding the methodology used by the council's valuer, Wilkes, Head and Eve which we reported to the Corporate Governance Committee in our 2016-2017 Audit Results Report in September 2017.

We were able to perform additional audit procedures on the valuation assumptions to conclude that the valuation of the Leisure Centres in 2016-2017 financial year was within a reasonable range in the context of our materiality levels.

What judgements are we focused on?

- Inappropriate valuation of Council's Leisure Centres

What did we do?

- Considering the work performed by the Council's valuer, Wilks, Head and Eve (WHE), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewing and sample testing the Council's Leisure Centres information provided by the Council to WHE in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considering external evidence of Leisure Centre values via reference to the NAO commissioned Local Government Gerald Eve report. Specifically we have considered if this indicates any material variances to the asset valuations performed by WHE and the desktop review by management;
- Considering changes to useful economic lives as a result of the most recent valuation;
- Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

What are our conclusions?

Work has been concluded on this area. We identified that the valuer had incorrectly included 3G all weather pitches at the Hudson and Manor leisure centres in their valuations.

The finance team confirmed that the all weather pitch at the Hudson is not owned by the Council and the facility at the Manor is not a 3G all weather pitch. The finance team obtained a revised valuation from the valuer which excluded the all weather pitches and the associated land on the Hudson site. This resulted in a total reduction of £1,234K in the value of the leisure centres.

The finance team have amended the financial statements to incorporate the new valuations. We can confirm the appropriate amendments have been made.

We are satisfied that the Council's accounts will present a true and fair picture of the subjective nature of valuations.





Areas of Audit Focus



Further details on procedures/work performed

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Authority'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 Authority engages an external expert valuer who applies a number of complex assumptions. Annually, PPE are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value).

As the Authority's asset base is significant, and the outputs from the valuer are subjective, there is a risk that the fair value of PPE may be under or overstated or the associated accounting entries incorrectly posted. 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.

This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant, furniture and equipment, community assets and infrastructure assets are held at cost.

Our approach has focused on:

- Considering the work performed by the Authority's valuer, Wilks, Head and Eve (WHE), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewing and sample testing the key asset information provided by the Authority to WHE in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- Reviewing the desktop review performed by management over assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- Considering external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report. Specifically we have considered if this indicates any material variances to the asset valuations performed by WHE and the desktop review by management;
- Considering changes to useful economic lives as a result of the most recent valuation;
- Considering whether asset categories held at cost have been assessed for impairment and are materially correct; and
- Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

Work has been concluded in this area and our testing has not identified any material misstatements from valuation of PPE or IP.



Areas of Audit Focus



Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £56.1 million (£55.0 million at 31 March 2017).

The information disclosed is based on the IAS 19 report issued to the Authority 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.

Our approach has focused on:

- Liaising with the auditors of Cambridgeshire Pension Fund, BDO, to obtain assurances over the information supplied to the actuary in relation to Fenland District Council;
- Assessing the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC – Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

We have now received our assurance from the pension fund auditor who have confirmed the difference between the actuary's report which was produced from the December 2017 valuation, from which the Council prepared its accounts, and the revised actuary report produced from the March 2018 valuation is as below.

Actuary's estimate of total fund value	£2,958,000,000
Actual fund value per draft statement of accounts for Fenland District Council Pension Scheme	£2,892,000,000
Difference	£66,000,000
Fenland District Council's share of difference (the difference between the original actuary report and the revised actuary report).	£974,000

We have concluded our work on this area and we are satisfied that the Council's accounts will present a true and fair picture of the subjective nature of pension liability.

We have included this judgemental estimation difference in our summary of misstatements at section 5 as it is of a size which warrants reporting to the Corporate Governance Committee. However, the misstatement does not impact cash nor the outturn for the year.



Areas of Audit Focus



Other matters

IFRS 15 implementation: A new accounting standard relating to revenue from contracts comes into effect on 1 April 2018. The Authority has undertaken an assessment of its implications and given the nature of the Authority's income streams, it has concluded that IFRS 15 is unlikely to have a material impact on the single entity financial statements of the Authority. We concur with the Authority's initial assessment.



04 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FENLAND DISTRICT COUNCIL

Opinion

We have audited the financial statements of Fenland District Council 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,
- The related notes 1 to 41,
- The Collection Fund and the related notes 1 to 6, and
- Statement of Accounting Policies.

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 Fenland District Council 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 Interim Corporate Director and Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Corporate Director and Chief Finance 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.



Audit Report

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2017/18 set out on pages 3 to 116, other than the financial statements and our auditor's report thereon. The Interim Corporate Director and Chief Finance 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 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, Fenland District Council 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.



Audit Report

Our draft opinion on the financial statements

Responsibility of the Interim Corporate Director and Chief Finance Officer

As explained more fully in the Statement of the Interim Corporate Director and Chief Finance Officer Responsibilities set out on page 21, the Interim Corporate Director and Chief Finance 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 Interim Corporate Director and 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.

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 Fenland District Council 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 Fenland District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.



Audit Report

Our draft opinion on the financial statements

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 Fenland District Council 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 Fenland District Council 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 Fenland District Council, 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.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
30 July 2018



05

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

In addition we highlight the following misstatements to the financial statements and/or disclosures which were corrected by management.

Overstatement of Hudson & Manor Leisure Centres valuation (refer page 12):

Dr Revaluation reserve £1,234k

Cr PPE Asset valuation £1,234k

Understatement of Local Government Pension Scheme Asset valuation estimate (refer page 14):

Dr Pension Asset valuation £974k

Cr Pension Reserve £974k

We identified some presentational and disclosure issues which have been adjusted by management, but are not detailed in this report as they are not significant enough to be brought to the attention of the Corporate Governance Committee.

No unadjusted audit differences were identified.



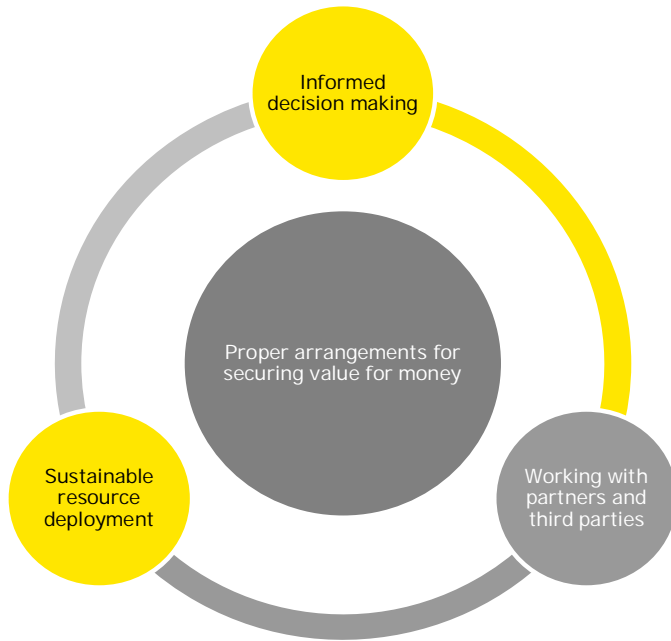
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Value for Money Risks





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



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Councils are funded by grants from central government and locally raised revenue from council tax and business rates or from fees, charges, or other revenue generating activities. Since 2010/11 funding for Councils from central government has reduced and further reductions for the period 2017/18 to 2020/21 are likely.</p> <p>The Council is taking action to address longer term financial resilience issues identified in the Medium Term Financial Strategy.</p> <p>Achieving the 2017/18 budget will be reliant on savings plans of £601k being realised.</p>	<ul style="list-style-type: none">• Take informed decisions• Deploy resources in a sustainable manner	<p>Our approach was to review the adequacy of the Council's arrangements for:</p> <ul style="list-style-type: none">• Delivery of the Council's 2017/18 savings plans and linkages to delivery of longer-term transformational change;• Identification of and review of the Council's 2018/19 financial plan;• Development of its longer-term financial strategy in the light of the local and wider financial pressures, including the robustness of assumptions; and• Consider the arrangements the Council is putting in place to review the options for the externalisation of its leisure centres. <p>The 2018/19 budget is balanced, through the use of efficiencies and income plans. Although we are only part way through the financial year, we assessed these as reasonably-based taking into account the Council's track record of delivering savings over the recent financial periods. While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans gives confidence that it can continue to do so.</p> <p>We also reviewed the key assumptions in the budget and MTFS, which adequately took into account the economic environment at that time for business rate projections, and the forecast for reduced central government funding and the potential settlement.</p> <p>Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery has not identified any significant matters that we wish to report to you.</p>



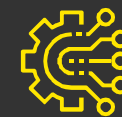
Value for Money Risks continued...

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the FY18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May 2018 and the publication of the audited accounts by 31 July 2018. The risk here is whether or not the Council puts in place all the appropriate arrangements to ensure its financial reporting processes enable the closure of accounts, production of financial statements and supporting working papers by the faster closure timetable.</p>	<ul style="list-style-type: none">• Ability to sign the accounts by 31 July	<p>As detailed in the audit plan taken to committee 7 February 2018 with the help of the finance team procedures were put in place in order to ensure that the deadline of 31 July was met.</p> <p>The Client Portal was set up which provided a clearer list of requested working papers enabling both EY and the Council the ability to efficiently track request. It also facilitate the request of further evidence requested to ensure both EY and the Council are aware of any outstanding items.</p> <p>Interim audit work undertaken in January/February 2018 and early testing undertaken in May 2018 which enabled to us to complete some areas of the audit as presented to you in our report taken to committee 19 June 2018.</p> <p>The Authority met the shortened deadline. Very few audit differences have been identified to date which reflects the high quality of the financial statements and supporting working papers. The finance team have provided the supporting working papers we need and the audit deadline of 31 July 2018 was met. We will again arrange a team debrief after the deadline, with the audit team and finance team, to highlight improvement areas for both teams.</p>



07

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.

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.



08

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council 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 Council 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.



09 Data Analytics



Use of Data Analytics in the Audit

► Data analytics – Journal Entry Analysis

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all Local Government financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



10

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 7 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 the Council and the Corporate Governance 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 Corporate Governance Committee on 27th July 2018.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on Port Authority statement of accounts. We have adopted the necessary safeguards in our completion of this work.

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 1 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.

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.

Independence

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 undertaken non-audit work outside the PSAA Code in respect to the work performed on the Port Authority Accounts. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	TBC*	49,186	49,186	52,186
Non-audit work - Grant claims	TBC*	14,262	14,262	16,388
Non-audit work – Port Authority Work	TBC*	2,600	0	1,567**
Total non-audit services	TBC*	16,862	14,262	17,955

*The final fee for the 2017/18 account audit is still to be quantified. However, we currently anticipate no increase in fee above the scale fee.

** Note that this has now been approved by PSAA



11

Appendices




Appendix A

Required communications with the Corporate Governance 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 Corporate Governance 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 taken to committee 7 th 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 taken to committee 7 th February 2018
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report to be taken to committee 27 th July 2018




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	<p>No conditions or events were identified, either individually or together to raise any doubt about Fenland District Council's ability to continue for the 12 months from the date of our report.</p>
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	<p>Audit results report to be taken to committee 27th July 2018</p>
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Corporate Governance committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>By letter of rep request in audit results report to be taken to committee 27th July 2018</p>
Fraud	<ul style="list-style-type: none"> • Enquiries of the Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Corporate Governance Committee responsibility. 	<p>By letter of rep request in audit results report to be taken to committee 27th July 2018</p>

Appendix A

		 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"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report to be taken to committee 27 th July 2018
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"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report taken to committee 7 th February 2018 and Audit results report to be taken to committee 27 th July 2018

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report to be taken to committee 27 th July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the 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 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report to be taken to committee 27 th July 2018

Appendix A

		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"> Written representations we are requesting from management and/or those charged with governance 	Audit results report to be taken to committee 27 th July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report to be taken to committee 27 th July 2018
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report to be taken to committee 27 th July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report taken to committee 7 th February 2018 and Audit results report to be taken to committee 27 th July 2018
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report – December 2018

Management representation letter

Signed Management Rep Letter

Neil Harris
Executive Director
Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire

Peter Carpenter
Tel 01354 622201
e-mail: pcarpenter@fenland.gov.uk

27 July 2018

Dear Neil,

Fenland District Council – 2017/18 Financial Year Letter of Representation

This letter of representations is provided in connection with your audit of the financial statements of Fenland District Council ("the Council") 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 financial position of Fenland District Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with the 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 is 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 yourselves:

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 Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA 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 Council, we believe that the Council 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 Council'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 your 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 Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council'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 Council'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.

Management representation letter continued

Signed Management Rep Letter

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 Council and Corporate Governance Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year ended 31st March 2018 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 Council related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We 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 Council 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, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

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

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative information – comparative financial statements

In connection with your audit of the comparative financial statements for the year ended 31 March 2017, we represent, to the best of our knowledge and belief, the following:

1. There have been no significant errors or misstatements, or changes in accounting policies that would require a restatement of the amounts from the financial statements for the year ended 31 March 2017 which are shown as comparative amounts in the financial statements for the year ended 31 March 2018. Any differences in the comparative amounts from the amounts in the financial statements for the year ended 31 March 2017 are solely the result of reclassifications for comparative purposes.

H. Accounting Estimates

Property, Plant and Equipment/Investment Properties – valuations and impairment
Pensions Liability
Provision for impairment of receivables

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Appendix B

Management representation letter continued

Signed Management Rep Letter

I. 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.

As approved by the Corporate Governance Committee at its meeting on 27 July 2018.

Signed on behalf of Fenland District Council:

Peter Carpenter
(Interim Chief Finance Officer)



Date: 27/7/18

Councillor John Clark
(Chairman of Corporate Governance Committee)



Date: 27-7-18

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