

Great Yarmouth Borough Council

Annual Audit Letter for the year ended 31 March 2015

14 October 2015

Ernst & Young LLP



Building a better
working world

Members
Great Yarmouth Borough Council
Town Hall
Hall Plain
Great Yarmouth
NR30 2QF

14 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 to those charged with governance through our audit results report presented to the 21 September 2015 Audit and Risk Committee, and an addendum presented to three representatives from the Audit and Risk Committee on 30 September 2015. We do not repeat those findings here.

The matters reported here are those we consider most significant for Great Yarmouth Borough Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Mark Hodgson
Executive Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014-15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with our Audit Plan issued on the 16 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

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

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Great Yarmouth Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 6 October 2015 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 6 October 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts.	The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack and submitted the required audit assurance statement confirming the threshold position.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council communicating the significant findings from our audit.

Our Audit Results Report was presented to the Audit and Risk Committee on 6 October 2015.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

We issued our certificate on 6 October 2015.

In December 2015, we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council 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 Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 6 October 2015.

Our detailed findings were reported to the 21 September 2015 Audit and Risk Committee, and an addendum presented to three representatives from the Audit and Risk Committee on 30 September 2015.

The Council did not prepare its financial statements by the 30 June statutory deadline.

The financial statements presented for audit were not fully supported by adequate working papers and contained a significant number of issues that required adjustment, both of which has required additional audit time to resolve. Due to the significance of the issues identified, and the extent of the audit adjustments required we were not able to complete our audit by the 30 September statutory deadline.

The main issues identified as part of our audit were:

Significant risk 1: Risk of management override

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.

One area which may be susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.

Findings:

-
- ▶ We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing of journals and estimates.
 - ▶ Our testing to identify if any expenditure had been inappropriately capitalised did not identify any material mis-statements.
-

Other audit risk 2: Property, plant and equipment valuations (fixed assets)

Due to the complexity in accounting for property, plant and equipment and the material values involved, these weaknesses increase the risk that asset valuations and capital expenditure contain material misstatements.

Findings:

- ▶ This is one of the most significant aspects of the accounts and we identified serious weaknesses within the Fixed Asset Register and the way in which Property, Plant and Equipment has been accounted for.
 - ▶ A significant number of misstatements have now been corrected. We identified the following errors:
 - There were material differences (£6.3 million) between the Fixed Asset Register and the Trial Balance.
 - The incorrect value for assets under construction (£1.0 million) was transferred to assets held for sale or investment properties.
 - Revaluation gains and losses were incorrectly accounted for.
 - The fixed asset register was not correctly updated for all revaluations carried out in the year.
 - Valuation schedules from the valuer were incomplete, we identified £1.8 million of assets that were not included in valuation report.
 - The fixed asset register was not updated for all disposals.
-

Other audit risk 3: Finance team - capacity and skills

There have been significant changes to the Council's finance team during 2014/15. This included the Group Manager – Resources taking on the section 151 responsibilities and maternity leave for key staff within the team. The Council's finance team is now heavily reliant on temporary appointments.

These changes increases risk because of diversion of capacity, loss of knowledge and focus of the finance team, which could lead to errors in the accounts or failure to meet the deadlines.

Findings:

- ▶ The financial statements were not presented for audit in compliance with the Accounts and Audit Regulation requirement of 30 June 2015. The accounts were presented on the 6 July 2015.
 - ▶ The financial statements presented for audit were not supported by adequate working papers and contained a significant number of issues that required amendment, both of which has required additional audit time to resolve. There were over 100 adjustments discussed and agreed with the client, these adjustments impacted all significant statements and over 20 disclosure notes.
 - ▶ Due to the number of correcting journals that had to be posted after the draft financial statements were prepared, we carried out a significant amount of additional journals testing to confirm movements were in line with audit expectations.
 - ▶ We were not been able to complete our audit work in our scheduled timeframe. As a result, we could not conclude our audit work in order to issue an audit opinion by the 30 September deadline.
-

Our Audit Plan also reported other audit risks for the business rates appeals provision and assessment of the group boundary. As reported in our Audit Results Report we did not identify any significant issues that we wish to bring to your attention for these risks.

We made the following recommendations to address the significant weaknesses in the Council's closedown arrangements.

Recommendations

1. The Council needs to urgently review the capacity and expertise within the Finance team to ensure that the Group Manager – resources has sufficient support to be able to prepare robust financial statements with supporting working papers in a timely manner.
2. The Council need to review urgently its approach to capital accounting, the way in which the Fixed Asset Register is updated with valuation information and the controls in place to ensure that it is a fit for purpose accounting tool that is able to provide the accounting transactions required for the preparation of the financial statements.

We have no other matters to report.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 6 October 2015.

We noted the following as part of our audit:

Arrangements to secure financial resilience: significant risk

Along with other Council's, Great Yarmouth Borough Council is facing significant financial challenges over the next three to four years. The Council's external funding sources are reducing and are likely to be subject to change and uncertainty in future years.

The Council's revised medium term financial strategy (MTFS), approved by Cabinet in September 2015, includes significant savings and additional income targets. These are new and untested projects and equate to £0.3m in 2015/16, £0.8m in 2016/17 and £1.1m in 2017/18. In addition there is a reliance on £1.4m of reliance on uncertain government funding (New Homes Bonus) in 2016/17 and 2017/18.

The MTFS is based on a number of assumptions, including an estimate of the future levels of Government funding. The MTFS currently assumes the New Homes Bonus scheme continues, however the income is projected to be 33% lower than previously assumed, through to 2019/20. Any reduction in Government funding in future years, together with an increased use of reserves if savings and income targets are not achieved represents a risk to achievement of the Council's future budgets.

Findings:

We have undertaken a review of the medium term financial strategy (MTFS) and the assumptions included within it. Great Yarmouth Borough Council has plans in place to address the significant financial challenges they face in the coming years. The Transformation programme now has agreed business cases in place to deliver the required savings set out above, across the three year period.

At the 31 March 2015, the Council has £10.4 million of useable general fund and earmarked reserves. With a £2.0 million minimum level of reserve policy in place, the Council could utilise £8.4 million of general fund and earmarked reserves.

The Council's track record of achieving savings, the high level of general fund reserves, which are forecast to remain above the required minimum level over the period of the MTFS, and identified transformation projects reduce the risk of the Council failing to effectively set and achieve its budgets over the medium term.

We are comfortable that the level of reserves held by the Council covers the budget gap identified within the medium term financial plan to an appropriate level and that the Council has savings plans in place to address the budget gap going forward.

However, the Council will need closely monitor the delivery of transformation projects, and continue to identify the savings necessary to reduce the 2017/18 budget gaps to minimise the use of reserves over the longer term. The MTFS should be updated to take account of this delivery and thus safeguard the level of general fund reserves that the Council holds.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office. The Council is below the specified audit threshold of £350 million and therefore we were not required to audit the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We made our audit assurance submission in line with the deadline.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

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

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We did not identify any issues during our audit that required us to use our powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit and Risk Committee on 25 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We have not yet completed our work on the certification of the claims and returns. We will issue our Annual Certification report for 2014/15 in December 2015.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. We have not tested the individual system controls of the Council as we have adopted a fully substantive approach to our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to tell the Council about any significant deficiencies in internal control we find during our audit.

We identified the monthly reconciliations of the accounts payable and cash management sub-ledgers to the relevant general ledger accounts were not performed on a timely or regular basis. We also found the reconciliation of the payroll sub ledger to the relevant general ledger account did not cover total transactions. This resulted in immaterial differences of £1,800 in November 2014 and £5,300 in February 2015 not being identified and resolved.

We made the following recommendation in relation to this internal control weakness.

Recommendation:

1. Management should reconcile its accounts payable, cash management and payroll sub-ledgers to its general ledger on a monthly basis and promptly follow up on any identified differences and make appropriate adjustments. The reconciliations should be reviewed and certified by an appropriate individual within the finance team.

We have not identified any other 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.

4. Looking ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Council's arrangements for the production of its financial statements. We have outlined what we think are two of the main challenges below.

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Assets under Depreciated Replacement Cost. This is a change from the existing requirement to account for these assets under Depreciated Historic Cost. This change is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have assets which fall into the definition. This could include, for example, footways and cycle ways, housing revenue accounts (HRA) infrastructure, unadopted roads on industrial or HRA estates, and street furniture.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p>	<p>The Authority should consider whether it holds any assets that would be classified as highways network assets and, if so, whether they have the necessary information to implement the changes in accounting for these assets from 1 April 2016.</p> <p>Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> • Footways • Housing revenue account (HRA) infrastructure • Unadopted roads in industrial or HRA estates • Cycleways • Street Furniture <p>If the impact of this change in accounting policy is material, the Authority would also need to restate the balances for these assets as at 1 April 2015.</p>
<p>Earlier deadline for production and audit of the financial statements from 2017/18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July in 2018.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We commented in our Audit Results Report on how the Council's current practices would not be fit for purpose for this change.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes.</p> <p>This will include the need to review the current processes for the production of the accounts and the associated supporting working papers, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p>

5. Fees

Our fee for 2014/15 code work is £18,150 higher than the scale fee set by the Audit Commission and reported in our Audit Plan.

	Proposed final fee 2014/15	Scale fee 2014/15	Variation comments
	£	£	
Audit Fee: Code work	92,550	74,400	Note 1
Certification of claims and returns	30,910	30,910	Note 2

Note 1 – The increase is due to additional work resulting from the financial statements presented for audit not being fully supported by adequate working papers and containing a significant number of issues that required adjustment, both of which has required additional audit time to resolve. These issues are reported in detail on pages 3 and 4.

This final fee is subject to approval from the Public Sector Auditor Appointments who will amend the scale fee to reflect the final fee charged.

Note 2 – Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. This will be reviewed in light of the work required in 2014/15

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