

# **Waveney District Council**

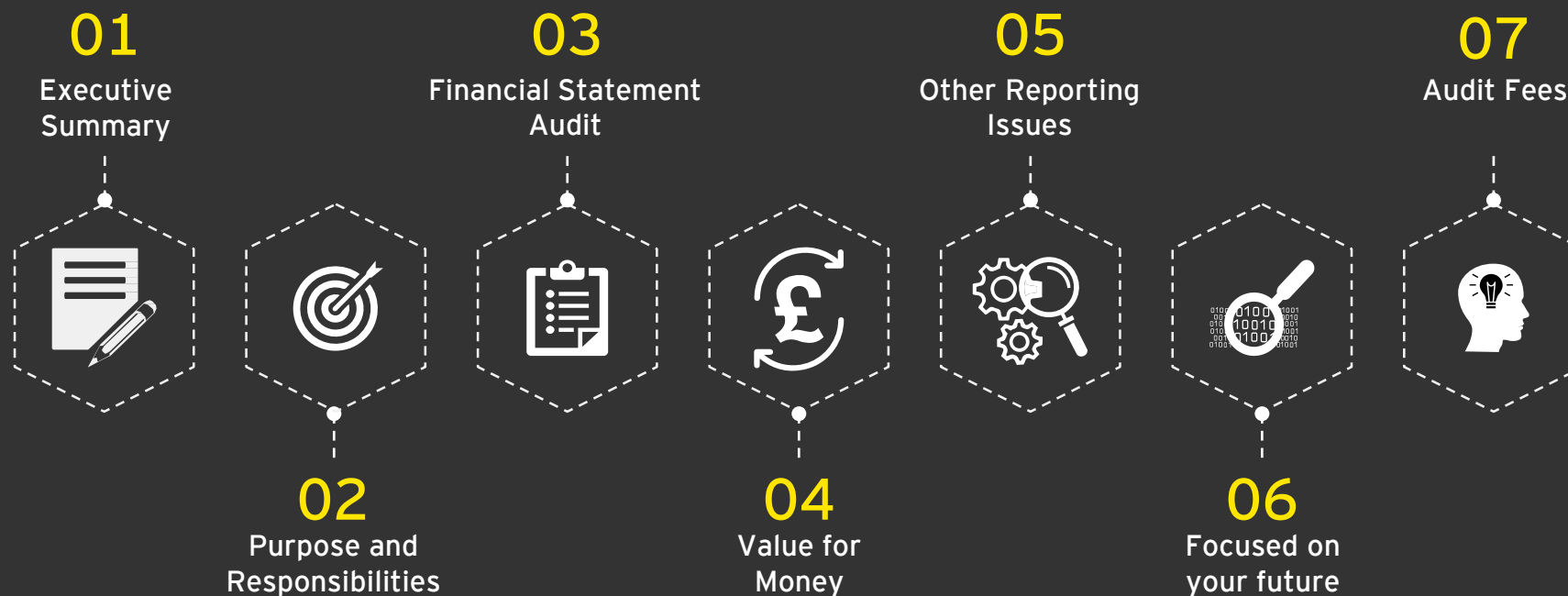
Annual Audit Letter for the year  
ended 31 March 2018

August 2018



Building a better  
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# 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](http://www.psa.co.uk))

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

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

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

**Our Complaints Procedure** - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 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 Waveney District Council following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b>	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ 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
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	We had no matters to report.

## Executive Summary (cont'd)

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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 6 July 2018
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 30 July 2018.

In December 2018 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.

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP





## 02 Purpose and Responsibilities

# Purpose and Responsibilities

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## 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 2017/18 Audit Results Report to the 25 July 2018 Audit and 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 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2018 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 2017/2018 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. 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

## Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 July 2018.

Our detailed findings were reported to the 25 July 2018 Audit and Governance Committee.

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

## Significant Risk

### Misstatements due to fraud or error

The risk is that 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.

## Conclusion

We:

- ▶ Wrote to the s151 officer, Chair of the Audit and Governance Committee, Head of Internal Audit and Monitoring Officer in this regard and reviewed their responses.
- ▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed.
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- ▶ Reviewed accounting estimates for evidence of management bias.
- ▶ Evaluated the business rationale for any significant unusual transactions.

We did not identify any:

- ▶ material weaknesses in controls or evidence of material management override;
- ▶ instances of inappropriate judgements being applied; or
- ▶ other transactions during our audit which appeared unusual or outside the Authority's normal course of business

## Financial Statement Audit (cont'd)

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The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>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.</p> <p>Having assessed the key income and expenditure streams of the Council, we judged that there was material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.</p>	<p>We:</p> <ul style="list-style-type: none"><li>▶ Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed.</li><li>▶ Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature.</li><li>▶ Amended our sample sizes when testing additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the capital/revenue split was reasonable.</li><li>▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.</li></ul> <p>We did not identify any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.</p>

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# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
<p><b>Property, Plant and Equipment Valuation</b></p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>Auditing standards require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.</li> <li>▶ Sample tested key asset information used by the valuers in performing their valuation.</li> <li>▶ 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 and annually for IP. We also considered if there were any specific changes to assets that had occurred and that these had been communicated to the valuer.</li> <li>▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.</li> <li>▶ Considered changes to useful economic lives as a result of the most recent valuation.</li> <li>▶ Tested accounting entries had been correctly processed in the financial statements.</li> </ul> <p>We encountered difficulty in competing this work due to the absence of officers that prepared the valuations and the lack of supporting evidence retained at the time to support valuation assumptions.</p> <p>Our testing identified 1 material misstatement from inappropriate judgements being applied to a property valuation estimate which overstated the asset value by £4.084mn. This was corrected by management.</p>
<p><b>Pension Liability Valuation</b></p> <p>The Council is required to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.</p> <p>Auditing standards require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ Liaised with the auditors of the administering authority (Suffolk County Council), to obtain assurances over the information supplied to the actuary in relation to Waveney District Council.</li> <li>▶ Assessed the work of the Pension Fund actuary 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 considering any relevant reviews by the EY actuarial team.</li> <li>▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> </ul> <p>Our testing identified 1 material misstatement arising from a difference between pension asset values estimated by the Actuary, and the actual pension asset values as at 31 March 2018.</p> <p>The Authority liaised with the pension fund and the Actuary to obtain revised figures that enabled a £1.994mn adjustment to be made reducing the pension scheme liability in the financial statements.</p>

## 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 £1.554mn (2017: £1.57mn), which is 2% of gross expenditure reported in the accounts of £77.7 million adjusted for upward revaluations of HRA property of £8.974mn.</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 Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.078m (2017: £0.079mn)</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. As these disclosures are considered to be of most interest to users of the accounts we adopted judgement in ensuring that we tested the disclosures in sufficient detail to ensure they were correctly disclosed. In particular we confirmed the figures for senior officer remuneration in full.
- ▶ Related party transactions. Accounting standards require materiality of the disclosure to be considered from the point of view of either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.
- ▶ Members' allowances. As these disclosures are considered to be of interest to users of the accounts we adopted judgement in ensuring we tested the disclosures in sufficient detail to ensure they are correctly disclosed.

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

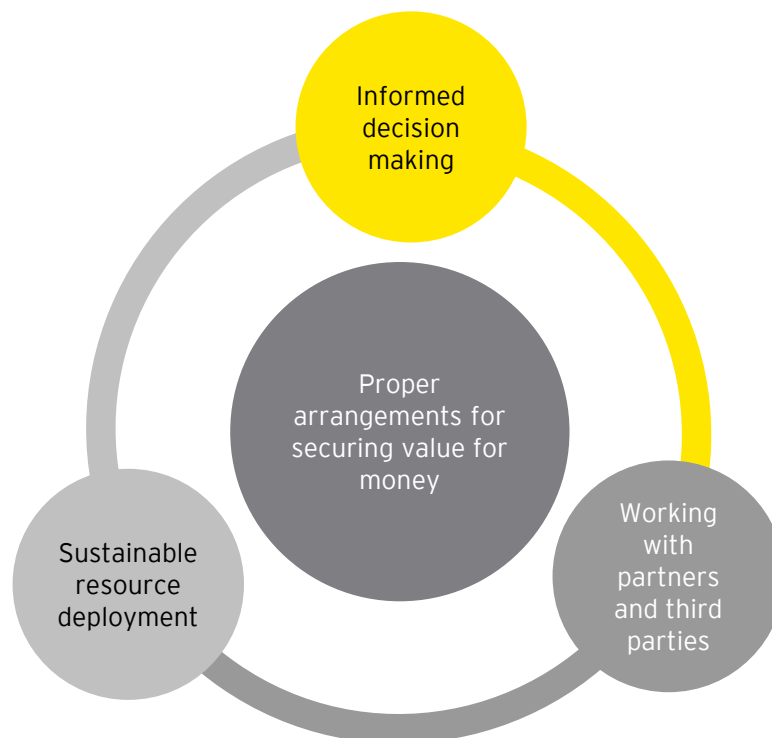


# £ Value for Money

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 identified 3 significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified. Two of these significant risks, in respect of asset management and contract management, were raised subsequent to our Audit Planning Report presented in March 2018.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 30 July 2018.



## Value for Money (cont'd)

Significant Risk	Conclusion
<p><b>Creation of East Suffolk Council</b></p> <p>Risk that key decisions have not been put to the right decision making bodies</p> <p>Risk that the Authority has not put in place adequate measures to ensure the new Authority takes informed decisions going forward</p>	<p>We reviewed the key decisions made by Cabinet and Full Council and the supporting reports; the manager and staff briefing dated April 2018 which set out in detail the implementation plans including the workings of the Member Programme Board. This includes key areas such as Constitutional Alignment; TUPE of staff; setting budgets; setting a single Council Tax; IT implications.</p> <p>We had no matters to report to the Committee.</p>
<p><b>Management of the Authority's asset base</b></p> <p>The 2016/17 Annual Governance Statement noted a need to improve asset management arrangements and internal audit work during 2017/18 reported limited progress in this area</p>	<p>We reviewed the findings reported by Internal Audit in their asset management report dated November 2017. We challenged management to demonstrate how they were satisfied that asset management arrangements in place throughout 2017/18 provided assurance that the Authority had adequate arrangements in place to secure value for money.</p> <p>We reviewed management's responses which covered the whole of the Authority's asset base and corroborated their explanations with our audit work and knowledge of the Authority.</p> <p>We acknowledged the control weaknesses raised by Internal Audit and recommended that the Authority put action plans into place as soon as practical.</p> <p>We had no additional findings to report to the Committee in relation to value for money.</p>
<p><b>Contract management</b></p> <p>The 2016/17 Annual Governance Statement noted a need to improve asset management arrangements and internal audit work during 2017/18 reported limited progress in this area</p>	<p>We reviewed the findings reported by Internal Audit in their Contract Management report dated November 2017.</p> <p>We challenged management to demonstrate how they were satisfied that asset management arrangements in place throughout 2017/18 provided assurance that the Authority had adequate arrangements in place to secure value for money.</p> <p>We reviewed management's responses which covered all significant areas of revenue and capital expenditure. We corroborated management's response with our own work on significant contracts and our knowledge of how the Authority exercises overall control over these areas.</p> <p>Again we acknowledged the control weaknesses raised by Internal Audit and recommended that the Authority address the weaknesses identified by Internal Audit as soon as practical.</p> <p>We were satisfied that the Council had sufficient arrangements in place to secure value for money.</p>



## 05 Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

The Council is below the specified audit threshold of £500mn. 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 2017/18 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)

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### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 25 July 2018. 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

It is the responsibility of the Authority 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 Authority 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 adopted a fully substantive approach, we did not test 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 did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements. However we noted the concerns raised by Internal Audit over contract and asset management processes and procedures at the Council and have commented in this report on the difficulties we have had when testing property valuations. We recommend that the Authority delivers on the agreed actions raised in those reports as soon as practical.





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
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"><li>▶ How financial assets are classified and measured;</li><li>▶ How the impairment of financial assets are calculated; and</li><li>▶ The disclosure requirements for financial assets.</li></ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"><li>▶ Reclassify existing financial instrument assets</li><li>▶ Re-measure and recalculate potential impairments of those assets; and</li><li>▶ Prepare additional disclosure notes for material items.</li></ul>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"><li>▶ Leases;</li><li>▶ Financial instruments;</li><li>▶ Insurance contracts; and</li><li>▶ For local authorities; Council Tax and NDR income.</li></ul> <p>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.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; 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 2019/20 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 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the 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>

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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 fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our July 2018 Audit Results Report.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
<b>Total Audit Fee - Code work (note 1)</b>	<b>59,220</b>	<b>53,774</b>	<b>53,774</b>	<b>54,780</b>
Non-audit work - Housing Benefit Grant Claim	tbc	11,015	11,015	24,070
Non-audit work - Pooling of Housing Capital Receipts Return	tbc	3,500	n/a	3,000
<b>Total non-audit services</b>	<b>tbc</b>	<b>14,515</b>	<b>11,015</b>	<b>27,070</b>

### Note 1

The final fee for 2017/18 includes a proposed variation of £5,446 (2016/17: £1,006) from the scale fee as a result of changes in the scope of the audit and other issues identified during the audit. This variation remains subject to agreement with management and the PSAA.

The final fee for the Housing Benefit Subsidy certification will be confirmed upon completion by the 30 November deadline. We will report the final fee in our annual grant certification report.

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



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