

AUDIT COMMITTEE

18 DECEMBER 2014

REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)

A.4 EXTERNAL AUDIT'S ANNUAL AUDIT LETTER 2013/14

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to the Committee the External Auditor's Annual Audit Letter 2013/14.

EXECUTIVE SUMMARY

The Annual Audit Letter for 2013/14 has recently been received from the Council's External Auditors which primarily summarises the outcomes from various audit activities undertaken during the year. The key messages set out in the letter highlight that the Council received an unqualified opinion on its financial statements and had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

RECOMMENDATIONS

That the Audit Committee considers and notes the contents of the Annual Audit Letter 2013/14.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The aim of continuing to be financially stable and well managed and provide good value for money is directly supported through learning and improving through audit and inspection.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

There are no direct financial implications arising from this report although a small additional fee for the year has been highlighted which can be met from within existing budgets.

Risk

Not responding practically and timely to outcomes from audit and inspection may have an impact on the delivery of the Council's priorities, reputation, governance arrangements and overall control environment.

LEGAL

The Annual Audit Letter is required to be published and made available to all members as soon as practically possible after it has been issued by the External Auditor. A copy of the Annual Audit Letter 2013/14 was sent to all members on 19 November 2014.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

This report does not have a direct impact although items could feature in the recommendations and subsequent action plans in future external audit reports. Any actions that may have an impact will be considered and appropriate steps taken to address any issues that may arise.

PART 3 – SUPPORTING INFORMATION

ANNUAL AUDIT LETTER 2013/14

There are a number of different strands of external audit work undertaken during the year such as specific activity in relation to the financial statements and value for money opinion. The outcomes from these activities are reported to the Council separately as they are completed during the year. The Annual Audit Letter is effectively an end of year report for the Council which captures and summarises these outcomes in one document. It is primarily directed to Members but it must also be made available as a public document.

The **Annual Audit Letter** relating to 2013/14 is attached. No significant issues have been raised relating to 2013/14 and any risks identified that remain on-going form part of the actions within the Table of Outstanding Issues report presented elsewhere on the agenda.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

ATTACHED Annual Audit Letter 2013/14

Annual Audit Letter

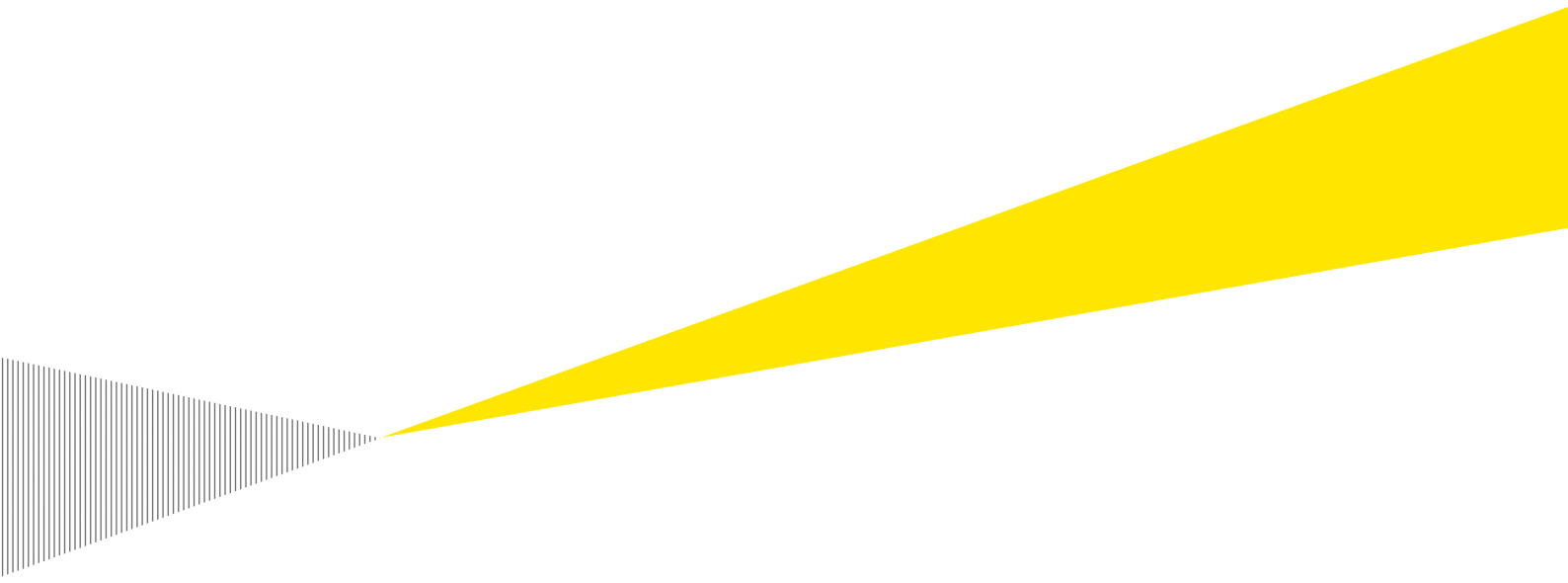
Tendring District Council

29 October 2014



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working world



Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire LU1 3LU

Tel: 01582 643000
Fax: 01582 643001
www.ey.com/uk

The Members
Tendring District Council
Town Hall
Station Road
Clacton on Sea
Essex
CO15 1SE

29 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Tendring District Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Tendring District Council in the following report:

2013/14 Audit Results Report for Tendring District Council	Issued 19 September 2014
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The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of Tendring District Council for their assistance during the course of our work.

Yours faithfully

Neil A Harris
Audit Director
For and behalf of Ernst & Young LLP
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In April 2014 the Audit Commission issued a revised version of the ‘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.

Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 6 March 2014 and is 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 the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Reviewing the Annual Governance Statement;
- ▶ Forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Tendring District Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)

On 30 September 2014 we issued an unqualified audit opinion.

Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.

On 30 September 2014 we issued an unqualified value for money conclusion.

Issue a report to those charged with governance of the Council (the Audit Committee) communicating significant findings resulting from our audit.

On 25 September 2014 we presented our Audit Results Report in respect of the Council to the Audit Committee.

Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.

We reported our findings to the National Audit Office on 29 September 2014.

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 complies with CIPFA / SOLACE guidance.

Management amended the Annual Governance Statement to include specific reference for several items, the most significant concerned:

► Details of the Council's action to review its local council tax scheme residency limitation following the judgement by the High Court in July 2014 that a similar residency scheme at Sandwell Metropolitan Borough Council was unlawful.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

We did not issue such a report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

We did not take such action.

Issue 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.

On 30 September 2014 we issued our audit completion certificate.

Issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work that we have undertaken.

We plan to issue our annual certification report to those charged with governance with respect to the 2013/14 financial year by 28 February 2015.

Key findings

Financial statement audit

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. We issued an unqualified audit report on 30 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was very good.

The main issues identified as part of our audit were:

Significant risk 1: Business rates appeals provision

- ▶ The new arrangements for the retention of business rates came into effect on 1 April 2013. From this date, the Council assumed the liability for refunding those ratepayers who have successfully appealed against the rateable value of their properties on the rating list.
 - ▶ The Council disclosed a provision for business rates appeals within the Collection Fund and for the Council's share within Provisions for those appeals known at 31 March 2014.
 - ▶ Our audit work confirmed that the accounting treatment adopted by the Council for business rates was appropriate and in compliance with the CIPFA Code of Practice and was calculated on a reasonable basis.
 - ▶ However, following audit, the Council amended the financial statements to disclose an extra provision in the Collection Fund and updated Movements in Reserves Statement, Balance Sheet and Note 17 Provisions to account for the calculation of a reliable estimate for those appeals not yet known at 31 March 2014.
 - ▶ This amendment results in a deficit for Tendring's share of National Non-Domestic Rates but because of the technical nature of the accounting adjustment, the Council's useable reserves increased by an immaterial sum of £126,000 for 2013/14.
-

Significant risk 2: Collection fund disclosures and accounting for business rates and council tax benefits

- ▶ The new arrangements for the retention of business rates and local council tax schemes came into effect on 1 April 2013.
 - ▶ Our audit work confirmed that the accounting treatment adopted by the Council for business rates and local council tax schemes was appropriate and in compliance with the CIPFA Code of Practice.
 - ▶ Management has disclosed a contingent liability within Note 34 to the financial statements. This follows a decision by the High Court to declare that Sandwell Metropolitan Borough Council did not have powers to apply a residency test to decisions to award local council tax support to claimants. Tendring operated a similar residency test and the contingent liability recognises the possibility of future financial risks to the Council.
-

Significant risk 3: Risk of Fraud and Error

- ▶ We did not identify any material instances of fraud or error.
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Significant risk 4: Risk of Management Override

- ▶ We did not identify any material instances of management override.
-

Other key findings:

Management corrected several other misstatements we identified. None of these adjustments made an impact on the Council's useable reserves

We reported three errors for which management did not correct in the 2013/14 financial statements.

- ▶ The Council included a provision for Land Search Charges under the Revenue Commitments Reserve at disclosure Note 6 Transfers To/From Earmarked Reserves. Had the Council amended the financial statements, useable reserves would have decreased by an immaterial sum of £0.114 million.
- ▶ The other two errors concerned netting off income and expenditure within Note 5: Adjustment between Accounting Basis and Funding Basis under Regulation and also within the Housing Revenue Account. Neither of these two corrections would have had an impact on the Council's useable reserves

We received a written representation from the Council that the uncorrected errors were not material and where relevant were consistent with the approach taken in earlier years. However, the Council is to reflect the necessary changes in the Statement of Accounts from 2014/15.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2014. We addressed the following significant risk as part of our audit.

Significant Risk 1: Coastal Protection Project

- ▶ The Council has obtained funding for a major £36 million coastal protection project from Clacton Pier to Holland Haven and tendered for a range of services to deliver the project.
- ▶ The scale of the project presents a local risk to value for money and requires detailed local risk-based work to form a view on Tendring's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- ▶ We reviewed Tendring's arrangements for the procurement, contract and risk management of the Scheme regarding the selection of a:
 - ▶ Project manager/supervisor to deliver engineering and related services; and
 - ▶ Contractor to deliver the construction contract.
- ▶ We made five recommendations concerning:
 - ▶ The funding arrangements for the coastal protection project;
 - ▶ The scope for including contractually binding incentives within the professional services contract;
 - ▶ Governance arrangements regarding declarations of conflicts of interest associated with evaluating tenders;
 - ▶ The Council's arrangements for managing the costs of the construction project in order to mitigate the Council's financial risks effectively and deliver the potential cost savings set out in the tender documents; and
 - ▶ The Council's arrangements for ensuring it has an appropriate budget in order to maintain and repair the Scheme where necessary after the work have been completed
- ▶ Management made the relevant Council Members aware of our findings before the award of contracts in May 2014.
- ▶ We reported our findings to the Audit Committee within our Audit Results Report on 25 September 2014. Management has put in place arrangements to follow up the recommendations made.
- ▶ We agreed a scale fee variation increase of £13,500 with the Finance and Procurement Manager, which the Audit Commission approved in September 2014.

Other Risk: Medium Term Financial Plan

- ▶ The Council continues to face a significant challenge to bridge the present funding gap estimated to be £4.7 million by 2018/19. The Council is taking action to address the gap. As government intentions are unknown beyond 2014/15, the Council needs to take a long term view in bridging the gap through achieving recurrent savings, efficiencies or increased income. In addition, Members need to consider carefully the impact of any decisions to freeze or reduce council tax as well as the level of reserves to support the Council's finances. Financial reports detailing the impact of Council Tax increases compared with taking the associated grant for freezing council tax would aid decision making.

Objections received

No objections were received in respect of the 2013/14 financial statements.

During 2013/14, we received one question from the public and the Council made us aware of other correspondence received relevant to our duties. We considered the relevant information and the Council's response. We did not undertake any further audit action in respect of the 2013/14 audit.

Whole of government accounts

We reported to the National Audit office on 29 September 2014 the results of our work performed in relation to the accuracy of the consolidation pack the Council is required to prepare for the whole of government accounts. We did not identify any material areas of concern.

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 complies with CIPFA / SOLACE guidance.

Management amended the Annual Governance Statement to include specific reference to:

- ▶ An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control);
- ▶ Whether the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)
- ▶ Recognition that performance statements and other information are based on accurate and reliable information;
- ▶ the limited assurance rating provided by ten Internal Audit reports during 2013/14 and consideration of the significance of the weaknesses identified; and
- ▶ Details of the Council's action to review its local council tax scheme residency limitation following the judgement by the High Court in July 2014 that a similar residency scheme was unlawful at Sandwell Metropolitan Borough Council.

Certification of grants claims and returns

We have not yet completed our work on the certification of grants and claims. We will issue the Annual Certification Report for 2013/14 in February 2015.

Audit fees

Our March 2014 Audit Plan recorded planned fees in line with the Audit Commission's scale fee for the audit. Since we issued the Plan, we have proposed the following increases to the scale fee.

	Proposed final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000	Explanation of variance
Total Audit Fee – Code work	93	77	77	<ul style="list-style-type: none"> ▶ Management agreed a scale fee variation increase for work on the coastal protection project to the value of £13,500. The Audit Commission approved the extra fee in September 2014. ▶ We are proposing to submit a scale fee variation increase of £1,026 for work in respect of the High Court Judgement on local council tax scheme residency criteria. ▶ We are proposing a scale variation increase of £896 for work in respect of questions and correspondence from the public.
Certification of claims and returns	17*	17	17	
Non-audit work	0	0	0	

*Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in February 2015 within the 2013/14 Annual Certification Report.

Management has agreed the fees for the proposed scale fee variations of £1,026 and £896, but these fees are still subject to agreement by the Audit Commission.

Control themes and observations

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. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicated to those charged with governance at the Council, as required, significant deficiencies in internal control.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
Our audit found that management had not updated the fixed asset register for sums to the value of £2.5m improvements to council dwellings and £0.5 million relating to the purchases of flats	We noted that the figures had been correctly included in the financial statements. However, management should keep the fixed asset register up-to-date to avoid missing data gaps and ensure the fixed asset register reconciles to the general ledger in the future.
The Council has embarked on an ambitious programme of regeneration and capital works covering the coastal defence scheme from Clacton to Holland Haven, Weeley Crematorium, Jaywick and improvements to Dovercourt and Frinton and Walton Swimming Pools.	The Council should continually review its management capacity to progress this programme of work to ensure that appropriate governance is in place and applied.

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

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