

Aylesbury Vale District Council

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

28 September 2015



Building a better
working world

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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 17 September 2015, subject to satisfactory clearance of outstanding work, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We do not expect to report any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ 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 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.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them;
 - ▶ Report on an exception basis on the Annual Governance Statement;
 - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion); and
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>Risk of management override</p> <p>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.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewing accounting estimates for evidence of management bias, and • Evaluating the business rationale for significant unusual transactions. 	<p>Our testing gave us no concerns as to management override through inappropriate or biased management decisions.</p>
<p>Revenue and expenditure recognition</p> <p>ISA 240 requires auditors' consideration of the risks of material misstatement due to fraud to be based on a presumption that there are risks of fraud in revenue and expenditure recognition. This is due to the potential pressures or incentives on management to commit fraudulent financial reporting to achieve an expected financial outcome through inappropriate revenue and expenditure recognition. Given the level and nature of revenue and expenditure; and the financial challenges facing the Council, we are unable to rebut this presumption of fraud and therefore assess this as a significant risk.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • Evaluating the types of revenue and expenditure and the associated risks; • Evaluating the selection and application of relevant accounting policies by the Council; • Understanding the systems relevant controls; and • Carrying out audit procedures to obtain the necessary assurance. 	<p>Our testing gave us no concerns as to inappropriate revenue and expenditure recognition through fraudulent or biased management decisions.</p>

Addressing audit risks – other audit risks

- We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over these issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other Financial Statement Risks		
<p>New Monitoring Officer During the 2014/15 year the Monitoring Officer for the Council has been replaced with an interim Monitoring Officer. Due to the importance of this role, in maintaining the highest standards of conduct for elected Councillor’s and staff, there is a risk that the interim Monitoring Officer is not appropriately experienced or qualified to perform their role.</p>	<p>Our approach focused on</p> <ul style="list-style-type: none"> • undertaking inquiries with the interim Monitoring Officer and management to gain assurances over their qualifications and experience. 	<p>Our inquiries and testing with the Monitoring Officer and management gave us no concerns as to the qualifications and experience of the Monitoring Officer.</p>
<p>Group Accounting It is important that the Council’s share of the transactions is accounted for properly. The accounts of Aylesbury Vale Estates LLP are produced using UKGAAP whereas the Council produce their accounts using IFRS. The Council needs to ensure that arrangements are in place to make appropriate IFRS judgements.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • Reviewing procedures performed on consolidation by management; and • Substantively testing disclosures to ensure accounts are in line with IFRS. 	<p>No issues arose from our testing.</p>
<p>Property, Plant and Equipment We identified an error during last year’s audit that required amendment in the 2013/14 accounts. The error was caused by the useful lives of some assets not being updated in line with the External Valuers revaluations. This led to corrections being made on depreciation charges, gross book values and land & buildings figures.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> • Test the appropriateness of PPE journal entries ensuring that they are in line with the Councils accounting policies; and • Additional substantive testing of depreciation and revaluations. 	<p>We found errors in the accounting for revaluations. The impact of these errors are outlined in Appendix A.</p> <p>No other issues identified that require reporting.</p>

Addressing audit risks – other audit risks (cont'd)

- We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over these issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
<p>Non Distributed Costs We identified in our 2013/14 audit that the income and expenditure lines for Non Distributed Costs had been used for items which should have been classified elsewhere in the Comprehensive Income and Expenditure Statement.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • Additional substantive testing of transactions to ensure that they have been classified in line with SERCOP requirements. 	<p>No issues arose from our testing.</p>
<p>Design and Operation of Internal Controls There are a number of historical control issues in place relating to the APTOS financial system (being replaced for 2015/16) which meant that we are unable to rely on controls for Accounts Receivable, Accounts Payable and journals systems. Our walkthroughs have confirmed that the control issues remain.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • Substantive testing of transactions from these systems. 	<p>Our interim work confirmed that some action had been taken to provide controls over the financial systems in place but APTOS has now been replaced for 2015/16.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
 - ▶ Receipt of a signed Letter of Representation which will be agreed at the meeting;
 - ▶ Whole of Government Accounts (WGA) review;
 - ▶ Receipt of outstanding related party transaction returns from members; and
 - ▶ Receipt of signed accounts for Hale Leys & AVE.
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ We have not identified any misstatements in the draft financial statements which management has chosen not to adjust.

Corrected misstatements

- ▶ Our audit identified a number of further misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix A.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest.

We have no matters we wish to report.

Financial statements audit – application of materiality

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	
<p>Planning Materiality and Tolerable error</p>	<p>For the Council’s financial statements, we set planning materiality at £2.118 million (2014: £2.053 million), which is 2% of gross expenditure in the accounts of £105.896 million.</p> <p>For the Group Accounts, we set planning materiality at £2.128 million (2014: £2.066 million), which is 2% of gross expenditure in the accounts of £106.402 million.</p> <p>We also set a tolerable error (TE) for the audit. This is how we apply planning materiality at the more detailed level of an individual account or balance. Its purpose is to make reasonably sure that the total of all uncorrected and undetected misstatements is unlikely to exceed planning materiality. The level of TE drives how much detailed audit testing we need to support our opinion.</p> <p>For both the Council’s financial statements and the Group Accounts we have set TE at the higher level of the available range.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.106 million (2014: £0.104 million)</p>

We also identified areas where we used a lower level of materiality level, as it might influence the reader. For these areas we developed a specific audit strategy. These include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Strategy applied: Tested all disclosures to payroll information and supporting documentation;
- Related party transactions. Strategy applied: Tested all disclosures and the register of members interests.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above; we also take into account any other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ 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.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ 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.
- ▶ We have however identified a deficiency in the collation of related party returns from Members during 2014/15. To date there are eight returns which the Council has yet to receive.
- ▶ We recommend that the Council put in place arrangements to ensure that all returns are collected in a timely manner. This will give the Council assurance that all related party transactions have been disclosed within the statement of accounts.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation on a number of matters.
- ▶ In addition to the standard representations required we have asked for a specific representation regarding related party transactions to provide us assurance where returns have not been received from Members.

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters arising to the Audit Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Aylesbury Vale District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and focus specified by the Audit Commission.

Criterion 1 – arrangements for securing financial resilience

'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'

- ▶ During the audit we identified a significant risk under this criterion, which we reported to you in our 27 July Audit Progress Report.

Significant risk impacts on arrangements for securing financial resilience	Our audit approach	Findings
<p>Medium term financial planning</p> <p>The Council continues to face financial challenges; with a savings requirement of £0.6m in 2016/17. The current medium term financial plan has a cumulative budget gap of £2.5 million in 2017/18. With a savings gap of at least £1.8m per year beyond 2017/18.</p> <p>The medium term financial plan sets out the Council's strategic approach for closing the budget gap and key deliverables that are critical to the future financial sustainability of the Council.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • Reviewing the achievement of the planned savings in 2014/15; • Reviewing the Council's ongoing identification of savings or alternative income streams to reduce the budget gap in 2016/17; and • Reviewing the Council's medium term financial planning and assumptions to 2017/18. 	<p>We have reviewed the Council's financial planning to date and the latest medium-term financial plan.</p> <p>We have reviewed the assumptions made by the Council in drawing up the plan which includes a number of efficiency initiatives and income streams to reduce the budget gap in future years.</p> <p>The Council's strategic plan appears to be reasonable.</p>

- ▶ We have no issues to report under this criterion.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Aylesbury Vale District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and focus specified by the Audit Commission.

Criterion 2 – arrangements for securing economy, efficiency and effectiveness

'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'

- ▶ We did not identify any significant risks under this criterion.
- ▶ We have no issues to report under this criterion.

Our work did not identify any other matters on aspects of the Council's corporate performance and financial management framework not covered by the scope of these criteria.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 18 March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 28 September 2015.

Communicating with Those Charged With Governance (TCWG)

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 18 March 2015.

Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	75,713	75,713	N/a
Certification of claims and returns	16,600	16,600	N/a
Non-Audit work	0	0	N/a

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

Appendices

Appendix A – corrected audit misstatements

- ▶ The following corrected misstatements, greater than £0.106mn have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
1. Short Term Borrowing	The Council's borrowings had been classified as Long Term when there was one payment due during 2015/16 and should have been classified as Short Term Borrowing.	F	(5,017,000)	
2. Long Term Borrowing		F	5,017,000	
3. CIES – Cost of services – Gross Income	Incorrect accounting for upward revaluations for assets between the CIES and the Revaluation Reserve. N.B – This amendment impacts on a number of additional disclosures within the financial statements.	F		(821,000)
4. CIES – Cost of services – Gross Expenditure		F		(2,000)
5. Revaluation Reserve		F	823,000	
Cumulative effect of corrected misstatement			823,000	(823,000)

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix A – corrected audit misstatements (cont'd)

- ▶ The following misstatements, greater than £0.106mn, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements

Disclosures

Disclosure	Type	Description of misstatement
1. Financial Instruments – Long Term Creditors	F	The whole amount of Long Term Creditors (£9.999 million) relates to ALUTS (Aylesbury Land Use and Transport Strategy) which is income received in advance does not meet the definition of a Financial Instrument and should not be included within the Note.
2. Property, Plant and Equipment	F	The movements on revaluations of property, plant and equipment have been incorrectly classified. The overall movements affecting the Balance Sheet and Comprehensive Income and Expenditure statement are outlined on page 20.

Within Note 11.7 the following reclassifications were required for “Other Land and Buildings”:

- Revaluation increases recognised in the revaluation reserve	-£823,000
- Revaluation increases recognised in the (surplus)/deficit on the provision of services	-£2,962,000
- Impairment losses recognised in the (surplus)/deficit on the provision of services	<u>+£3,785,000</u>
- Overall impact on the Net Book value on Other Land and Buildings	£0

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

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ED None

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