

Broads Authority

Annual Audit Letter for the year ended 31 March 2015

21 October 2015

Ernst & Young LLP



Members
Broads Authority
Yare House
62-64 Thorpe Road
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21 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 audit results report presented to the 22 September 2015 Financial Scrutiny and Audit Committee, representing those charged with governance. We do not repeat those findings here.

The matters reported here are those we consider most significant for the Broads Authority.

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

Yours faithfully



Neil Harris
Director
For and 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 10 February 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 Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Authority 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 Authority 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 Authority's AGS
- forming a conclusion on the arrangements the Authority 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 the Broads Authority for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2015 we issued an unqualified audit opinion on the Authority's financial statements
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources	On 25 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Authority needs to prepare for the Whole of Government Accounts	The Authority 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 Authority'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 Authority communicating the significant findings from our audit.

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.

Our Audit Results Report was presented to the Financial Scrutiny and Audit Committee on 22 September 2015.

We issued our certificate on 25 September 2015.

2. Key findings

2.1 Financial statement audit

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

We audited the Authority'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 25 September 2015.

Our detailed findings were reported to the 22 September 2015 Financial Scrutiny and Audit Committee.

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

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.

Findings:

- ▶ We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing
-

We have no other matters to report.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Authority 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, we carried out the following work for our 2014-15 value for money conclusion:

- ▶ reviewing the annual governance statement;
- ▶ reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- ▶ undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

We issued an unqualified value for money conclusion on 25 September 2015.

Our audit did not identify any significant matters.

Looking ahead, along with other public sector bodies, the Broads Authority is facing significant financial challenges over the next three to four years. The Authority's external funding sources are reducing and are likely to be subject to change and uncertainty in future years.

The Authority's medium term financial strategy is based on a number of assumptions, including an estimate of the future levels of Government funding. 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 Authority's future budgets.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office. The Authority 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 Authority 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 Authority'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 Financial Scrutiny and Audit Committee on 22 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

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 Authority 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 Authority about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design of an internal control that might result in a material misstatement in the Authority's financial statements.

4. Looking ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Authority'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, unadopted roads on industrial estates, and street furniture.</p> <p>This may be a material change of accounting policy for the Authority. 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 • 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 Authority 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>The Authority 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 is in line with 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	13,943	13,943	No change proposed

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