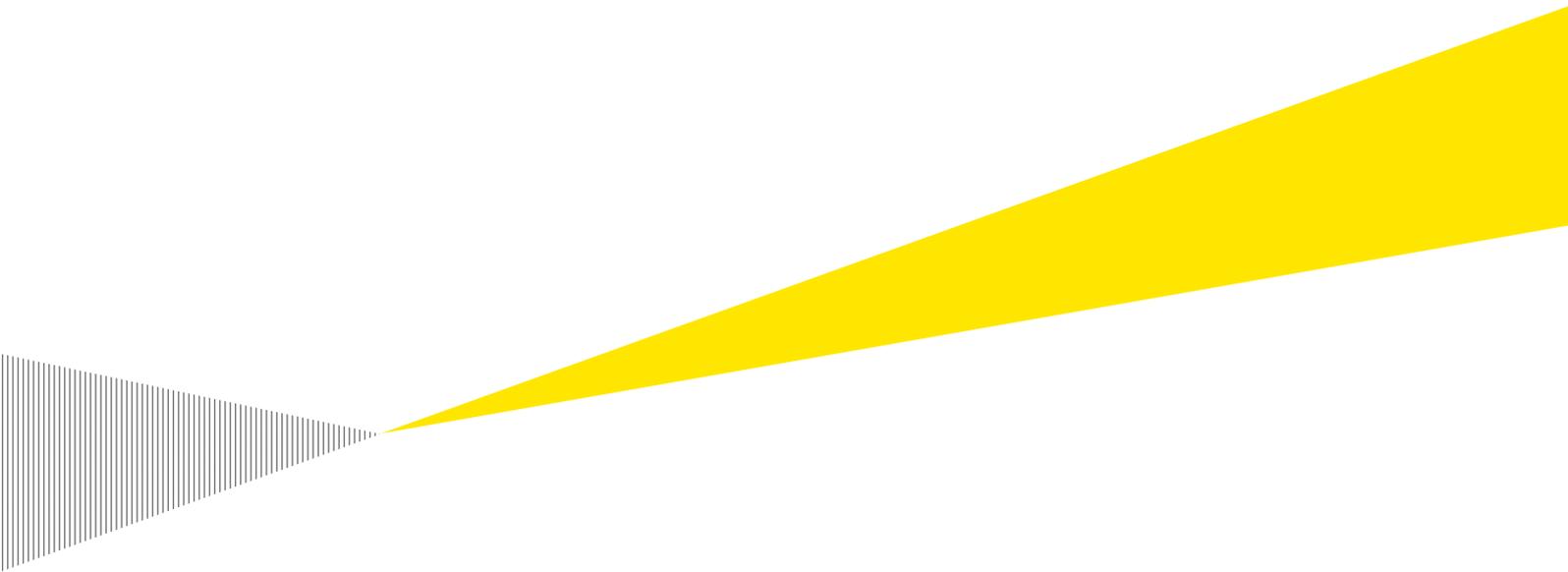


# Annual Audit Letter

Chelmsford City Council

22 October 2014



Building a better  
working world

22 October 2014

The Members  
Chelmsford City Council  
Civic Centre  
Duke Street  
Chelmsford  
CM1 1JE

Dear Members,

## **Annual Audit Letter**

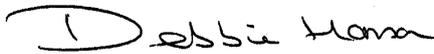
The purpose of this Annual Audit Letter is to communicate to the Members of Chelmsford City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Chelmsford City Council in the 2013/14 Audit results report for Chelmsford City Council issued on 24 September 2014.

The matters reported here are the most significant for the Council.

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

Yours faithfully

A handwritten signature in black ink that reads "Debbie Hanson". The signature is written in a cursive style with a large, stylized initial 'D'.

Debbie Hanson  
Audit Director  
For and behalf of Ernst & Young LLP  
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# Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 19 February 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 they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their 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 Chelmsford City Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 24 September 2014 we issued an unqualified audit opinion in respect of the Council's accounts.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 24 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 24 September 2014 we issued our report to the Council.
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 24 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.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

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

No issues to report.

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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 22 October 2014 we issued our audit completion certificate.

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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 31 January 2015.

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# 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 24 September 2014.

The main issues identified as part of our audit were:

### Significant risk 1: Consideration of the risk of fraud

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ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Our audit procedures and testing did not identify any instances of misstatement due to fraud and error.

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### Significant risk 2: Localisation of business rates

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There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement were not clear at the time the Council was preparing its accounts, and this therefore presented a risk in terms of the financial statements.

Our audit work confirmed that the accounting treatment adopted by the Council for business rates was appropriate and complied with the CIPFA Code of Practice. The business rates appeals provision was judged to have been calculated on a reasonable basis in line with the requirements of relevant international accounting standards (IAS 37).

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## 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 24 September 2014.

### Key findings:

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#### 1. Financial resilience

Along with many other Council's, Chelmsford is facing significant financial challenges over the next three to four years. The Council's external funding sources are reducing and are subject to change and uncertainty in future years. Some of the main areas of uncertainty relate to:

- ▶ Future levels of business rates income;
- ▶ Future funding through the New Homes Bonus; and
- ▶ Level of Government funding through the Revenue Support Grant (RSG) and Baseline Funding (business rates).

The Council is clearly aware of the challenges it faces and is continuing with its programme of service reviews as well as looking at ways in which services can be provided more efficiently and effectively in future years. Officers are also considering how the Council can generate income by operating on a more commercial basis.

The Council has a strong track record of delivering savings and meeting its budget and good progress has already been made on identifying savings to bridge the budget gap of £1 million in 2015/16.

The Council's financial forecasts are currently being revised and will be reported to Members in November. Some of the key issues include:

- ▶ The Council has a cumulative budget gap of around £4 million over the next 4 years (to 2018-19) which will need to be bridged through savings and efficiencies or increased income.
- ▶ The Council has made prudent assumptions in relation to the key areas of uncertainty. New Homes Bonus has been assumed to cease after 2015/16 and the forecasts have not included any increase in council tax.
- ▶ The Council has significant earmarked reserves that it has set aside to meet anticipated pressures on the budget.
- ▶ In recent years, the Council has increased its council tax by less than 2% a year. Decisions relating to council tax increases, or decreases, have an ongoing impact on the Council's ability to raise revenue in future years due to the annual restrictions on the level of annual increases

In light of the future financial pressures the Council is facing, Members need to be clear about the impact of any decisions on use reserves to support the Council's finances or council tax levels on the ongoing sustainability of the Council's financial position and its ability to maintain service levels in future years.

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## **2. Securing economy efficiency and effectiveness**

Chelmsford City Council:

- ▶ has demonstrated that it has effective arrangements in place for securing economy, efficiency and effectiveness;
  - ▶ continues to use cost and performance information to make decisions, including the use of comparative and benchmarking data to challenge economy, efficiency and effectiveness of services; and
  - ▶ continues to challenge its costs in order to reduce these without adversely affecting the quality of its services.
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## **Objections received**

No objections have been received in respect of the 2013/14 financial year. We did receive an objection in relation to the Council's 2012/13 accounts which related to the taxi licence fees charged by the Council in 2012/13. We determined this objection in October 2014. We concluded that the issues raised in the objection had no material impact on the financial statements or our assessment of the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources. We therefore issued an unqualified opinion on the Council's financial statements and an unqualified value for money conclusion for both 2012/13 and 2013/14.

We did not identify any evidence to uphold the objection that the Council are recovering unlawful items of account in relation to licence fees in relation to either the method of calculation of fees or the individual items included within the taxi licence account codes. We did however conclude that the Council does not have the power to make charges for licence transfers. The Council has estimated that the annual income from these charges is in the region of £4,000. In light of the small value of the sums involved, and the Council's agreement to review these arrangements for future years, we have therefore not taken any further action in relation to this issue.

## **Whole of government accounts**

We reported to the National Audit office on 24 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 confirmed that the Council falls under the threshold for a full audit of the submission.

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

## **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 January 2015.

## Audit fees

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

	Planned fee	Scale fee	Final
Code audit work	£80,460	£80,460	£80,460*
Certification of claims and returns	£28,160**	£28,160**	see note below
Non-Code work	Nil	N/A	Nil

\* Our actual fee is in line with the agreed fee for the Code audit work for 2013/14. We will need to charge an additional fee in relation to dealing with the objection on the Council's 2012/13 accounts, which was concluded in October 2014. We will agree the fee for this additional work with the Council and the Audit Commission now that the objection has been decided and our final statement of reasons issued.

\*\* Since we issued our Audit Plan, the Audit Commission have reduced the scale fees for certification work from £32,000 to £28,160. The revised scale fee noted above reflects the removal of council tax benefit from the benefit subsidy system.

Note: Work on the certification of claims and returns is not yet complete. We will report our final fee for the certification work in our report to be issued by 31 January 2015.

We confirm that we have not undertaken any non-audit work.

## 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.

We did not identify any deficiencies in control during the audit but did identify a number of areas of improvement which we have reported to management and those charged with governance of the Council. These related to:

- ▶ **Processes for the production of the accounts:** The complexities in the processes used to translate the information from the ledger to the statutory accounts increases the risk of errors occurring and also results in additional work for both the finance and audit team.
- ▶ **Presentation of the accounts:** The structure and presentation of the accounts could be improved to be clearer and more understandable to a reader, in line with the CIPFA consultation on 'simplifying and streamlining the presentation of local authority financial statements'.
- ▶ **Bank reconciliation:** The bank reconciliation contains a significant number of low value reconciling items dating back as far as 2006/07 that should be resolved so the reconciliation only contains current items.

We have recommended that the Council undertakes a review of the closedown process and presentation of the accounts to see if these can be simplified and streamlined.

Control themes and observations

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Ernst & Young LLP

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