

Test Valley Borough Council

General Purposes Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

September 2014



Building a better
working world

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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 General Purposes 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 2013/14 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 24 September 2014, 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 expect to issue an unqualified confirmation 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.

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 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- 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)

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

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

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.

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.

| Audit risk identified within our Audit Plan | Audit procedures performed | Assurance gained and issues arising |
|--|--|--|
| Significant audit risks (including fraud risks) | | |
| <p>The previous business rates (national non domestic rates - NNDR) system was based on receipts and payments accounting rather than accrual accounting. However, on transfer to the new business rates scheme full accrual accounting was introduced. One of the consequences of this is that billing authorities are now required to calculate a provision in respect of valuation appeals that have yet to be decided at the year end.</p> <p>Previously, the impact of these appeals was not recognised until the appeal had been settled so there was no accrued or brought forward liability in the financial statements. However, under the new scheme any outstanding appeals at 31 March 2013 that had not previously been provided for became a liability of the billing authority's Collection Fund on transition.</p> <p>This provision was stated in our Audit Plan of March 2014 as an 'other' risk. However, because the provision affects all primary financial statements and there is a potential risk for material error at all billing authorities, the risk was upgraded to 'significant'. We do not consider the risk at Test Valley BC to be any higher than any other similar local government body.</p> | <p>In the absence of prescribed departmental guidance, our approach focused on:</p> <ul style="list-style-type: none"> • Reviewing provisions and other significant accounting estimates made by management to ensure they are reasonable; • Auditing the business rate balances as per Code guidance; and • Ensuring any provision complies with the relevant accounting standard. | <p>We found that the business rates appeal provision was reasonable, adequately evidenced and prepared in accordance with the accounting standard 'IAS 37 – Provisions, Contingent Liabilities and Contingent Assets'.</p> |

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.

| Audit risk identified within our Audit Plan | Audit procedures performed | Assurance gained and issues arising |
|--|--|--|
| Significant audit risks (including fraud risks) continued | | |
| <p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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>This risk is inherent to all local government bodies and we do not consider the risk to be any greater at Test Valley Borough Council than at any other district council.</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>From the work performed, we found no indication of management override in the 2013/14 financial statements.</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 those issues.

| Audit Risk identified within our Audit Plan | Audit Procedures performed | Assurance gained and issues arising |
|--|--|--|
| Other audit risks | | |
| <p>The audit approach dictates that we gain as much assurance as possible from the work of internal audit. Inability to rely upon it could have a potential negative impact on the audit fee because the scale fee depends upon the council having in place an effective internal control environment, of which internal audit is an integral part.</p> <p>Historically we have not sought to rely too heavily on the work of internal audit at Test Valley but, ongoing, we plan to do so to make the audit process more efficient. Changes in the arrangements for internal audit provision in 2013/14 therefore need to be assessed for strength and reliability to ensure ongoing assurance.</p> | <p>We:</p> <ul style="list-style-type: none"> Recorded and reviewed the arrangements in place and carried out an assessment as to whether we can rely upon the work of internal audit. Met with internal audit and discussed how we could gain maximum assurance from its work i.e. by sharing our key controls over financial systems. Reported to management and those charged with governance any deficiencies identified. | <p>We found that the work of internal audit can be relied upon for our ongoing assurance. We have shared our work plan and hope to place as much reliance as possible on its work in future.</p> <p>We have no deficiencies to report.</p> |

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 Letter of Representation
 - ▶ Completion of WGA (Whole Government Accounts) return
 - ▶ Audit closure processes i.e. checking final version accounts and clearing residual queries
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.
- ▶ We have undertaken our audit late in the cycle this year and we would like to put on record our thanks to the Head of Finance and his team for their cooperation and responsiveness in relation to this.

Uncorrected Misstatements

- We have identified one balance that could not be verified within the draft financial statements which management will review and clear during 2014/15, which has been reported to you as 'uncorrected'.
- This has been detailed in Appendix 2.

Corrected Misstatements

- Our audit identified a small number of misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.
- We have provided further details of these corrected misstatements at Appendix 1.

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; and,
 - Any significant difficulties encountered during the audit; and
 - Other audit matters of governance interest,
- We have no matters to report.

Financial statements audit (continued)

Internal Control, Written Representations & 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.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any specific representations in addition to the standard representations.

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 that arise to the Audit Panel and General Purposes Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Test Valley Borough Council has put in place 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 have regard to the following criteria and focus specified by the Audit Commission.

Criterion 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council 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”*

We did not identify any significant risks in relation to this criterion based upon our review of:

- ▶ the Council's risk management procedures and risks registers;
- ▶ 2014/15 budget setting in response to the 2013 local government settlement; and
- ▶ the medium term financial plan.

We have no issues to report in relation to this criterion. We assessed the Council's Medium Term Financial Plan and found that the Council is in a good position to deliver balanced budgets up until March 2017, without significant contributions from reserves.

Criterion 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council 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 in relation to this criterion based upon:

- ▶ a review of the Audit Commission's VFM profiles; and
- ▶ assessing the Authority's ability to deliver services in the medium term with reduced funding.

We have no issues to report in relation to this criterion. Our work focused on the Council's budget setting processes and ability to set balanced budgets within the current spending constraints, without detrimentally affecting service provision. We found that the Council operates well in this context and has the expertise to set realistic budgets whilst continuing to provide its statutory functions.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice 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 General Purposes Committee on 24 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of March 2014.

Audit fees

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

| | Proposed final fee 2013-14 | Scale fee 2013-14 | Variation comments |
|-------------------------------------|----------------------------|-------------------|--------------------|
| | £s | £s | |
| Total audit fee - Code work | 69,540 | 69,540 | n/a |
| Certification of claims and returns | 13,700* | 13,700 | n/a |
| Total | 83,240 | 83,240 | n/a |

**Note that 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 December 2014 within the Annual Certification Report for 2013/14.*

- ▶ 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.

Appendix 1 - Corrected audit misstatements

The following misstatement has been identified during the course of our audit and in our professional judgement warrants communicating to you. This event did not exist at balance sheet date and has arisen in the intervening period and was therefore not incorrect at the date of the balance sheet.

Management has added a note to the accounts to account for this item.

Disclosures

| Disclosure | Description of misstatement |
|--|--|
| 1. Note 36 - Events after the Balance Sheet date | The disposal of the Duttons Road site in Romsey was approved by the Council during 2013/14 and this is reflected in the financial statements. However, the value of the disposal depended upon the granting of planning permission, which was granted on 15 th September, 2014. If completion of the sale now takes place as expected during October 2014, the eventual proceeds will be materially more than the value disclosed in the accounts. As such, a material event that arose after the end of the reporting period requires reporting as a disclosure under the accounting standard 'IAS 10 Events after the Reporting Period'. Under the same standard, the primary financial statements do not require adjustment. |

Appendix 2 - Uncorrected audit misstatements

The following 'misstatement' was identified during the course of our audit and in our professional judgement warrants communicating to you. Strictly the balance is not an error, rather, an item that cannot be verified as correct or incorrect.

Management plans to review this balance and clear during 2014/15.

Balance Sheet

| Financial statements reference | Description of misstatement |
|---|--|
| 1. Balance Sheet - Current Liabilities; Creditors | The Creditors breakdown for 2013/14 contains a balance of 191k entitled 'Contractors'. The constituent transactions relate to rent contracts and the majority date back to c.2004. Due to subsequent system changes the balance could not be verified as either correct or incorrect and could not be subjected to audit testing. The Council plans to review and clear this balance during 2014/15. |

Ernst & Young LLP

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In March 2010 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 Chief Executive 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 Audit Results Report 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.

