

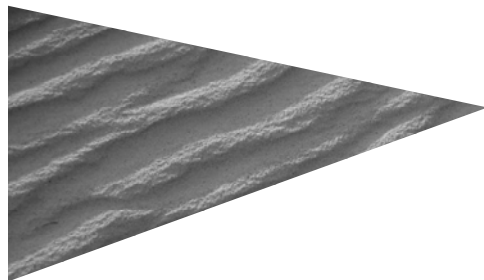
Test Valley Borough Council

General Purposes Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

September 2013



■ Kate Handy: Director
■ KHandy@uk.ey.com

■ Malcolm Haines, Manager
■ MHaines@uk.ey.com

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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' 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 2012/13 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 30 September 2013, we expect to issue an unqualified opinion. The Authority has again prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

Value for Money

- ▶ We expect to conclude that, in all significant respects, Test Valley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. As the Authority is well below the WGA threshold for a full audit we are only required to complete a limited form of assurance for 2012/13.

Audit Certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit 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 Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority 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 Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

My audit was designed to:

- ▶ Express an opinion on the 2012/13 financial statements
- ▶ Report on any exception on the governance statement or other information included in the Statement of Accounts 2012-2013
- ▶ As a component auditor, follow the group instructions and send to the National Audit Office my group assurance certificate, audit results report and auditor's report on the consolidation schedule
- ▶ Consider and report any matters that prevent me being satisfied that the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

This report contains my findings related to the areas of audit emphasis, my views on the Authority's accounting policies and judgments and material internal control findings.

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

Addressing audit risks

Significant Audit risks

We did not identify any significant risks for the audit. The following inherent audit risk was identified during the planning phase of our audit, and reported in our Audit Plan. Here, we set out how we have gained audit assurance over the issue.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Audit risks		
<p>1. Risk of misstatement due to fraud and error</p> <p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p>	<p>Based on the requirements of auditing standards our approach focused on:</p> <ul style="list-style-type: none"> ➢ identifying fraud risks during the planning stages ➢ Inquiry of management about risks of fraud and the controls put in place to address those risks ➢ Understanding the oversight given by those charged with governance of management's processes over fraud ➢ Consideration of the effectiveness of management's controls designed to address the risk of fraud ➢ Determining an appropriate strategy to address those identified risks of fraud ➢ Performing mandatory procedures regardless of specifically identified fraud risks ➢ Considering the results of the National Fraud Initiative 	<p>We have gained the expected level of assurance over the risks of fraud, the oversight exercised by those charged with governance, the internal control framework and the operation of controls designed to prevent and detect fraud or error.</p> <p>We have completed our mandatory tests of detail on the financial statements and concluded that the risk of material misstatement remains low. We have not identified any material errors or omissions in the financial statements.</p> <p>There have been no reported internal frauds at the Authority in 2012/13.</p> <p>The Authority has participated in the national fraud initiative, which identified a small number of Housing Benefit frauds, and has made good progress on clearing potential fraud matches, although it remains an ongoing exercise.</p>

Financial Statements audit

Issues and errors 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 General Purposes Committee meeting:
 - ▶ Receipt of a Letter of Representation
 - ▶ Communication from the Chair of the General Purposes Committee and Head of Finance in response to enquiries of those charged with governance and management in connection with risks of material misstatement due to fraud or error; and
 - ▶ Final internal review procedures
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Errors

We have not identified any errors within the draft financial statements, which management have chosen not to adjust.

Corrected Errors

My audit identified a limited number of errors which my team have highlighted to management for amendment. All of these have been adjusted during the course of our work.

I do not consider any of these to be significant, or above our reporting threshold, and therefore I have not provided further details of these amendments.

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 Authority's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices;
- ▶ 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.
- ▶ Other audit matters of governance interest

There is one matter that we wish to report. Asset valuations are supported by handwritten schedules and we found variances between these and the asset register. Management have made minor amendments to the accounts but we recommend these underlying records are either computerised or subject to greater review during the closedown process to prevent potential error.

Findings and issues

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority 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 Authority only to the extent necessary 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 weakness in the design or operation of an internal control that might result in a material error 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, for which we do not currently have sufficient audit evidence. We have not requested any specific representations for this year over the standard representations in the Letter of Representation.

Whole of Government Accounts (WGA)

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of my report are specified by the National Audit Office.

As the Authority is well below the WGA threshold for a full audit we are only required to complete a limited form of assurance for 2012/13.

We expect to issue an unqualified confirmation to the NAO regarding the Whole of Government Accounts submission.

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 Authority's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 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"

- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We concluded that the Authority has established a robust Medium Term Financial Plan which it updates regularly as the underlying assumptions change.
- ▶ There are good levels of corporate challenge and effective monitoring arrangements to ensure that annual budgets are being delivered.
- ▶ Looking forward the level of financial challenge is increasing but the Authority has maintained its prudent level of General Fund reserves at £2m and increased its earmarked reserves from £10.6 million to £11.7 million, showing that it is coping well in the difficult economic conditions.

Criteria 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 in relation to this criteria.
- ▶ We concluded that the Authority continues to look for efficiencies and has demonstrated that it can find and achieve savings and more efficient ways of working without cutting primary services.
- ▶ Short- and medium-term savings targets are linked to corporate priorities. Performance monitoring is effective and budget-holders are held accountable for budget achievement.
- ▶ The Authority consults with local Business Rate and Council Tax payers on key decisions and offers business support initiatives to encourage investment within the Test Valley area.
- ▶ Despite budgeted annual deficits up to 2016/17 the Authority has shown that it has in place efficiency and savings plans to achieve budgets without significantly utilising its revenue reserves.

Independence & Audit Fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since the confirmation in our Audit Plan dated March 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit director 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 30 September 2013.

- ▶ We confirm that we have met the reporting requirements of the General Purposes Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements was set out in our Audit Plan of March 2013.

Audit fees

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

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	
Total Audit Fee – Code work	69,540	69,540	Not Applicable
Non-Audit work	Nil	Nil	Not Applicable
Claims and returns certification	19,950	19,950	Claims work not yet started so final figure could potentially change

- ▶ 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.

Ernst & Young LLP

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

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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.

