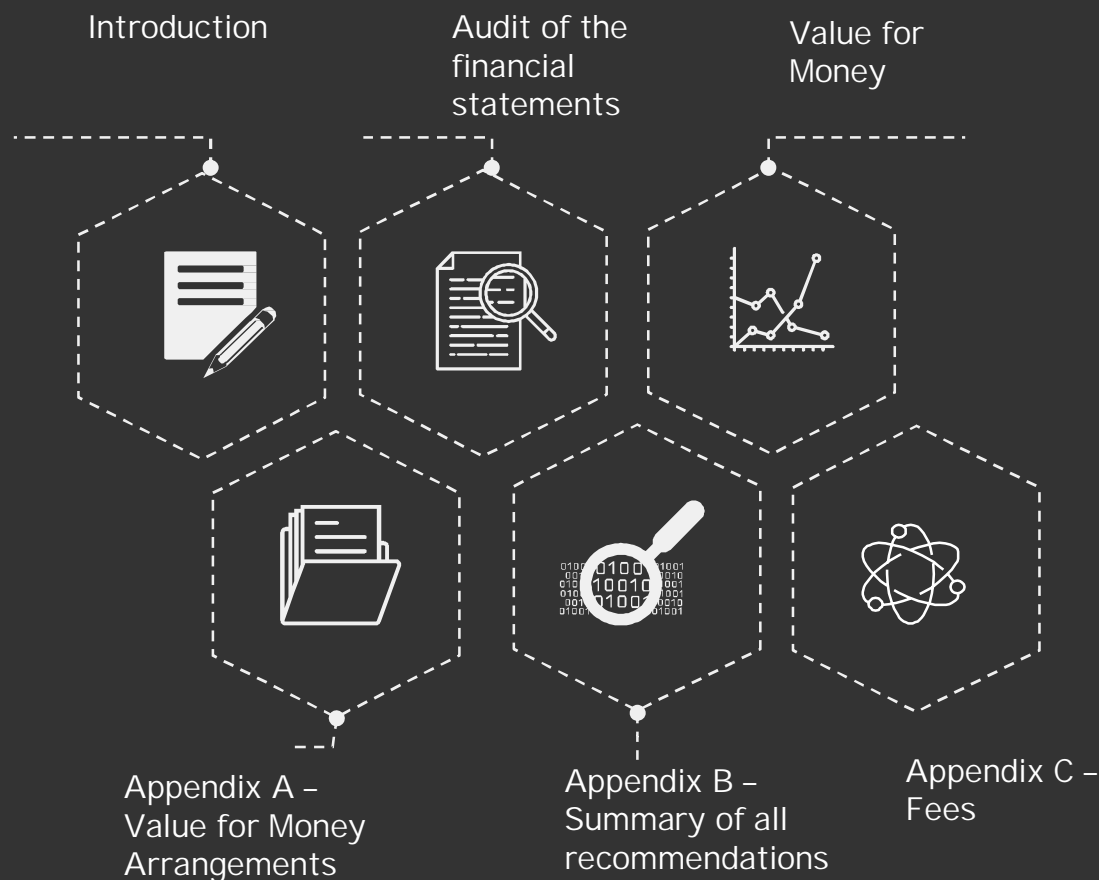


The background image shows a modern, multi-story building with a glass facade. The interior is visible through the glass, showing a bright, open-plan space with a polished floor that reflects the ceiling lights. The ceiling has recessed lighting fixtures. The glass panels are held together by dark metal frames. The overall atmosphere is clean, professional, and contemporary.

# Test Valley Borough Council Council Auditor's Annual Report

Year ended 31 March 2022

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between 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 “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Test Valley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Test Valley Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Test Valley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# Introduction

## Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued in August 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council:

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



## Introduction (continued)

### 2021/22 Conclusions

Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 25 July 2023.
Going concern	We have concluded that the Head of Finance and Revenues' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required as part of the Whole of Government Accounts submission.

# Audit of the financial statements

## Key findings

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

On 25<sup>th</sup> July 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 27<sup>th</sup> March 2023 Audit Committee meeting with a verbal update being given to the Committee on 19<sup>th</sup> June 2023. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported no areas for improvement in the control environment in the Audit Results Report.

## Significant risk

## Conclusion

Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

We tested a sample of Property, Plant & Equipment and Investment Property additions and noted one audit difference in relation to Property Additions for £111k.

We identified no issues in relation to Revenue expenditure financed from capital under statute.

Misstatements due to fraud or error - management override of controls

Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

Accounting for Nitrate Credits

In 2021/22 the Council purchased Nitrate Credits. The scheme enables housing developers to buy Nitrate Credits to offset the footprint on areas vulnerable to Nitrate pollution. This is a new accounting issue, impacting only a small number of authorities, without specific CIPFA guidance.

We engaged an EY reporting specialist to look at this area. We agreed with the Nitrate Credits being held on the Balance Sheet as Inventory and are comfortable with the Balance Sheet valuation. However, there is a difference in management's approach to the accounting treatment compared with our view for the I&E impact. Management has recorded the sale of these credits through revenue but in our view these should be treated as capital. In the current year this is clearly trivial at £16.6k, however, we note that this may become material in the future.



# Audit of the financial statements

Other risks / areas of audit focus	Conclusion
Valuation of Land & buildings and Investment Property	<p>Valuations of land &amp; buildings represent significant balances in the Council's accounts and are subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the balances held in the balance sheet.</p> <p>Our Property, Plant and Equipment (PPE) Valuations and Investment Property Valuations is now complete. As per the verbal update given in June, there were no issues to note in relation to PPE however there were a couple of findings in relation to Investment Properties. These are shown below:</p> <ul style="list-style-type: none"><li>• £1,000,000 understatement of 1 investment property – this was due to a typo in the External Valuation report. Management have adjusted for this in the final set of Accounts.</li><li>• £365,000 understatement of 1 investment property – this was due to a difference in professional opinion re. industrial land values between the external valuer and our EY Real Estates team. Given this is due to a difference in judgement, management have decided to not adjust for this in the Accounts and therefore forms part of our schedule of uncorrected errors. Please note this error is not material.</li></ul>
Pension Liability valuation	<p>The Code of Accounting Practice requires extensive disclosures regarding the Council's pension liability balances. The accounting requires significant estimation and judgement, with management engaging an actuary to undertake the calculations on their behalf.</p> <p>As the audit was not completed by 31 March 2023, management needed to take account of the completed 2022 triennial valuation.</p> <p>Due to the triennial valuation having a material impact on the Accounts we had to perform additional testing on membership data. This testing was performed at a Fund level by the auditors of Hampshire County Council. This work has now been completed and no issues have been noted in this testing. Due to the updated Valuation, the net pension liability in the Accounts has changed from £57.065m to £51.602m. Management have adjusted for this in the final set of Accounts.</p>

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

## Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 30 January 2023 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Head of Finance and Revenues and evaluation of associated documentation through our regular engagement with Council management and the finance team.

## Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

Our commentary for 2021/22 is set out over pages 8 to 10. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

We have no matters to report by exception in the audit report.



## Value for Money (continued)

### Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council managed its budget during 2021/22. It reported an outturn £1.6m better than expected, with the variance put into five reserves. The Budget Equalisation reserve was increased by £0.5m of this total, to offset the emerging budget pressures including inflation.

During Feb 2022 the Council set its 2022/23 annual budget. This increased the Council Tax (Band D) by £5, following reasonable assumptions being made on cost pressures, income generation, and an anticipated use of £0.25m from the Budget Equalisation Reserve. The medium term forecast at that point showed a deficit of £3.6m for the next financial year (23/24) and £3.9m for 24/25, with a process instigated with officers and members to identify options to close the gap.

More recently, in February 2023 the Council has set its 2023/24 budget. Council Tax (Band D) was again raised by £5, with a total of £2m income generation (£1.758m) and saving proposals (£0.267m). Improvements since the previous forecast also included additional investment income due to the rise in interest rates, and a better than expected settlement. The medium term forecast for 24/25 has also reduced the deficit down to £0.4m, which is an improvement since the previous year. The projection for year 2025/26 is a £1.8m deficit. The Revenue Budget and Council Tax Proposals 2023/24 report rightly recognises that opportunities for efficiencies reduce over time, and the further ahead is looked the less certain forecasts can be. However, in our judgement the Council remains well placed to address future financial challenges.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



### Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council has appropriate arrangements in place to make informed decisions and manage its risks.

The Council approved changes to its internal governance structure by establishing the Audit Committee on 6th April 2022, which we recommended in our prior year report. The Audit Committee undertakes the duties previously performed by the Audit Panel of the Overview and Scrutiny Committee (OSCOM) as well as specific functions that were undertaken by OSCOM and the General Purposes Committee.

The Audit Committee has provided input to review another recommendation for improvement we made in the prior year, to assess the presentation of Risk.

Our third recommendation for improvement in our prior year report was to ensure the Contract Standing Orders and Financial Procedures rules were reviewed and updated. The Council has completed this review, with the latest versions approved as at November 2022, published as part of the Constitution.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



## Value for Money (continued)

### Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

The Council has appropriate arrangements in place.

We were informed by management during the audit of an instance of non-compliance with procurement regulations relating to the procurement of public art in commemoration of the Queen's Platinum Jubilee. An investigation was undertaken by management, following a question on the subject from a member of the public, confirming that the Council did not follow the Public Contracts Regulations or its own Contract Standing Orders (breached due to the failure to advertise the commissions on the government's *find-a-tender* and *Contracts Finder* portals). The contract has since been cancelled and a re-procurement completed.

We considered the matter to be isolated, and no other instances of non-compliance have been identified including through internal audit reviews. We undertook no further consideration as management were already implementing the required actions. The values were assessed as 'clearly trivial' to the audit.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

# Appendices



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# Appendix A – Summary of arrangements

## Financial Sustainability

### Reporting Sub-Criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

### Findings

Regarding financial planning, the Council monitors its financial pressures in detail each month. The revenue budget must ensure that the resource allocation properly reflects the Council's Corporate Plan, Corporate Action Plan projects and service plans. Budgets (spending plans) are needed so that the Council can plan, authorise, monitor and control the way money is allocated and spent. To enable the Authority to prepare for events in advance, a rolling three-year medium term forecast is produced based on known and anticipated changes in the Authority's finances over that period.

In order to produce an initial Budget Forecast the prior year budget is 'rolled forward' to take account of inflation and any changes in the base level of expenditure and income. Following this, discussions are had with all Heads of Service and the Head of Finance and Revenues, to review all areas of each Service's budget to identify options to reduce net expenditure and to discuss any financial pressures to each Service.

#### Medium Term Forecast (MTF):

To enable the Authority to prepare for events in advance, a rolling three-year medium term forecast is produced based on known and anticipated changes in the Authority's finances over that period. The MTF sets out a framework for financial decision making and anticipates additional spending requirements and the level of savings that will be needed.

A Medium Term Financial Strategy (MTFS) is also approved each year and sets out the key financial assumptions that have been made in producing the MTF and sets out a proposed framework within which to work over the life of the strategy.

#### Annual Budget Setting Process:

The Head of Finance and Revenues is responsible for ensuring that a revenue budget and a forward financial forecast for three years is prepared each year for consideration by Cabinet.

Budget management ensures that once the budget has been approved by the full Council, resources allocated are used for their intended purposes and are properly accounted for. For the purposes of budgetary control by managers, a budget will normally be the planned income and expenditure for a service area or cost centre, broken down into a level of detail agreed by the Head of Finance and Revenues.

The Head of Finance and Revenues is responsible for establishing an appropriate framework of budgetary management and control to enable budgets to be monitored effectively. The Head of Finance and Revenues must monitor expenditure against budget allocations and report regularly to Cabinet on the overall position.

The Head of Finance and Revenues is responsible for controlling income and expenditure on their budgets and for monitoring performance, taking account of financial information provided by the Chief Officers. The Head of Finance and Revenues should provide a statement to the Cabinet as soon as practicable after 31st March each year setting out a comparison of the Council's actual and estimated income and expenditure and explanations of variances between the two for the preceding financial year.

## Appendix A – Summary of arrangements

### Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The Council operates a Medium-Term Forecast and annual budget in order to conduct their financial planning. The Council aims to balance any funding gaps through the identification of revenue savings or generation of additional income. The use of reserves may be considered as a short term measure or in respect of areas of significant volatility such as retained business rates.</p> <p>The Council will also look to mitigate any risks by looking for further options for efficiency savings across all areas as part of their drive for continuous improvement. The Head of Finance and Revenues should encourage the best use of resources and value for money by working with Chief Officers to identify opportunities to improve economy, efficiency and effectiveness, and by encouraging good practice in conducting financial appraisals of development or savings options, and in developing financial aspects of service planning</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council has financial planning processes, and monitoring processes in place to help ensure the continuances of their services. In order to ensure these finances support the delivery of services the Council produces a “Corporate Plan” which sets out how the Council can build upon the strengths of the Borough and its communities to improve the quality of life across Test Valley. The Corporate Plan outlines the Council’s vision and priorities for Test Valley over a four-year period. It sets the direction and provides a focus for all activities and services. As a result, it informs decision making and the allocation of resources across the Council.</p> <p>The MTF feeds into the Corporate Plan by reviewing the financial implications of what the Council do and sets the annual budget.</p>
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>We note that throughout the financial planning i.e. budget and MTF, consideration of other plans such as capital and treasury management also take place. The Capital, Investment, Treasury Management and Reserves strategies all form part of the annual budget setting process with the strategies being taken for approval at the same time as the revenue budget.</p> <p>The Capital Strategy sets out the framework within which all Council capital expenditure is approved, monitored and financed and demonstrates how the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.</p> <p>The Council’s Corporate Plan sets out the Council’s aims over the period 2019 – 2023. In particular this highlights the four priority areas that the Council is focussed on. The Capital Strategy will enable delivery of projects to reinforce these priority areas.</p> <p>The Council also operate a Treasury Management and Annual Investment Strategy.</p>

## Appendix A – Summary of arrangements

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### Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system (continued)	<p>The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return. In addition to the above, the Head of Finance and Revenues is required to assess the adequacy of Revenue Reserves. Reserve balances have been identified as a key indicator of financial health and the Council continues to have an appropriate level of reserves to deal with identified risks. As a minimum, there are sufficient balances to support the budget and capital programme and provide an adequate contingency for financial risks.</p>
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>Please see documentation above about the annual budget setting process, MTF and Corporate Plan that the Council has in place.</p> <p>Throughout the preparation of each of these, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be.</p> <p>Monitoring of the budget through the year then identifies emerging trends and risks, and these are taken into account in the subsequent budget setting identifying pressures and changes since the prior budget setting or update reports.</p> <p>The Council has an effective risk management strategy in place to identify, mitigate and monitor the risks to the Council in delivering strategic objectives. This includes both financial and non-financial risks.</p>

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## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

#### Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council produces a risk management strategy which sets out clearly risk management implementation process and the roles and responsibilities of managing risk. This process involves identifying, analysing, prioritising, managing and monitoring risks that present themselves.

Quarterly reports are received from the internal auditors highlighting work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives.

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. Internal Audit progress reports are monitored regularly throughout the year.

How the body approaches and carries out its annual budget setting process

The Head of Finance and Revenues is responsible for ensuring that a revenue budget and a forward financial forecast for three years is prepared each year for consideration by Cabinet.

Budget management ensures that once the budget has been approved by the full Council, resources allocated are used for their intended purposes and are properly accounted for. For the purposes of budgetary control by managers, a budget will normally be the planned income and expenditure for a service area or cost centre, broken down into a level of detail agreed by the Head of Finance and Revenues.

The Head of Finance and Revenues is responsible for establishing an appropriate framework of budgetary management and control to enable budgets to be monitored effectively. The Head of Finance and Revenues must monitor expenditure against budget allocations and report regularly to Cabinet on the overall position.

The Head of Finance and Revenues is responsible for controlling income and expenditure on their budgets and for monitoring performance, taking account of financial information provided by the Chief Officers. The Head of Finance and Revenues should provide a statement to the Cabinet as soon as practicable after 31st March each year setting out a comparison of the Council's actual and estimated income and expenditure and explanations of variances between the two for the preceding financial year.

## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

Reporting Sub-Criteria	Findings
<p>How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed</p>	<p>Within the Financial Procedure Rules of the Council there are procedures in place to ensure the body has effective processes and systems to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed.</p> <p>The Head of Finance and Revenues is responsible for assisting the Authority to put in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations. They are also responsible for preparing an annual statement on the effectiveness of internal controls within the Authority's Annual Governance Statement. Internal Audit form part of this process through their audit plan, and raising recommendations for corrective action where needed.</p>
<p>How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee</p>	<p>The entity has a number of arrangements in place to ensure that appropriate decisions are made. The Council's Constitution records and regulates decision-making processes and the role of elected members and officers.</p> <p><u>Full Council</u> The Borough Council (comprising all 43 elected members) meets at least six times each year to conduct business. The Mayor of Test Valley acts as Chairman of these meetings. When the full Council meets, its agenda is largely devoted to discussion of reports and recommendations from Committees.</p> <p><u>The Cabinet</u> The Cabinet comprises eight elected members, who are appointed by the Leader and have powers to take decisions on the Council's behalf (generally concerned with operation of Council services and the formulation of policy). They also make recommendations for approval by the Council relating to the Council's overall policy framework.</p> <p><u>Overview and Scrutiny Committee</u> The main functions of this Committee include:</p> <ul style="list-style-type: none"> <li>• developing and reviewing policy</li> <li>• holding the Cabinet to account in public for the discharge of the functions for which it is responsible</li> </ul> <p>The Committee is a key mechanism for enabling Councillors to represent the views of their constituents and other organisations to the Cabinet, and seek to ensure that these views are taken into account in policy development. The Overview and Scrutiny Committee is responsible for scrutinising Cabinet decisions and holding the Cabinet to account, including examining the budget proposals and budget strategy proposed by the Cabinet to full Council.</p>

## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (continued)	<u>Audit Committee</u> The Audit Committee has been recently formed on the back of recommendations previously provided through the external audit. The Audit Committee undertakes the duties previously performed by the Audit Panel of the Overview and Scrutiny Committee (OSCOM) as well as specific functions that were undertaken by OSCOM and the General Purposes Committee. Council approved changes to its internal governance structure by establishing an Audit Committee on 6th April 2022.
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	<p>We have inspected the website of Test Valley Borough Council and identified the various policies in place regarding the integrity, ethical values and behaviour of key executives.</p> <p>To ensure effective leadership throughout the entity, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution and the rules under which they operate. In particular, it looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the Authority has determined others locally.</p> <p>The Council has a sound management philosophy, demonstrates clarity of purpose and focus, with emphasis on performance and risk management. Our experience and knowledge of senior management is that they act with integrity, have good standards of behaviour and performance and lead by example. Both management and those charged with governance maintain an ethical stance and respond to instances of non-compliance with remedial action. There is an ethos of compliance with laws and regulations.</p>

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>The Corporate Plan sets out how the Council can build upon the strengths of the Borough and its communities to improve the quality of life across Test Valley. The Corporate Plan outlines the Council’s vision and priorities for Test Valley over a four-year period. It sets the direction and provides a focus for all activities and services. As a result, it informs decision making and the allocation of resources across the Council.</p> <p>The Council has developed 4 priorities that they are committed to for the life of the plan:</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<ul style="list-style-type: none"><li>• Town Centres – to adapt and be attractive, vibrant and prosperous places</li><li>• Communities – to be empowered, connected and to build upon their strengths</li><li>• People – to be able to live well and fulfil their aspirations</li><li>• The Local Environment – for current and future generations</li></ul> <p>Cabinet reviews the performance of the Corporate Plan on an annual basis. This enables the active performance management of the Corporate Plan and ensures the Council is allocating resource in the most effective way. Each year, the Leader of the Council will make an annual presentation to the Overview and Scrutiny Committee to report on progress made during that year. This will form the basis of an annual update report and will be published on the Council’s website.</p> <p>Progress is monitored through a range of performance and satisfaction-based indicators against which progress can be judged. The indicators are used as part of a broader suite of operational management tools that ensure standards are being met ensuring that the things that matter most to residents are being delivered in an efficient and effective way. In addition, each of our services produces an annual Service Plan which describes the things they do and how they contribute to the Corporate Plan priorities. Progress is monitored on a quarterly basis through the service performance boards.</p>
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<p>The Council has identified its key partnerships and promotes good governance in those. The Council’s Contract Standing Orders and Financial Regulations contain specific sections on partnerships and identify officer responsibilities in relation to the management and involvement in partnerships. Protocols and agreements are put in place for the management of significant partnerships. A single strategic partnership for the Borough is in place called the Test Valley Partnership. It brings together the key partner agencies from across the public and voluntary and community sector. It meets twice a year and provides a place in which the key strategic issues facing the borough can be discussed, joint work developed and statutory duties met.</p>

## Appendix A – Summary of arrangements (continued)

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### Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	The Council's Contract Standing Orders contains specific sections on procurement and the Council's Procurement Strategy sets out the Council's vision for the way forward in its procurement of services, supplies and works for staff, partners, suppliers and stakeholders. The Contract Standing Orders states that "Every contract must be let in compliance with all applicable legal requirements, the Council's Procurement Strategy and the Council's Financial Procedure Rules".

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## Appendix B – Summary of all recommendations

### Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: None noted		
Value for Money: We identified that internal Audit do not produce a separate standalone report for their year-end conclusions including their Head of Internal Audit Opinion. This is reported to the Audit Committee via the normal Committee papers, on a continuing basis. We note that the information needed to be communicated is included by this method, but we believe it to be better practice (and normally seen elsewhere) to have a separate year-end report	Produce a separate, standalone, year-end Internal Audit Report containing the Head of Internal Audit Opinion.	This was introduced in 2023, with the Annual Audit Report 2022/23 presented to the Audit Committee on 19th June 2023.



## Appendix C – Fees

### Fees

We carried out our audit of the Council’s financial statements in line with PSAA Ltd’s “Statement of Responsibilities of auditors and audited bodies” and “Terms of Appointment and further guidance (updated April 2018)”. As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment . As a result, we have discussed an associated additional fee with the Head of Finance and Revenues which remains subject to approval by PSAA Ltd.

Our final proposed fees for 2021/22 are set out in the table below:

Description	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee	40,679	40,679
Scale Fee Rebasing (1)	25,612	
Scale Fee Variation (2)	10,593	
Scale Fee Variation – changes in the Code of Audit Practice and Auditing Standards (note 3)	9,098	38,074
<b>Total Audit Fee – Code work</b>	<b>85,982</b>	<b>78,753</b>

Note 1: Proposed Scale Fee Rebasing: this relates to our scale fee rebasing for the audit, to take into account changes in professional and regulatory requirements to that date. These have been raised in prior year audits and as these are ongoing requirements, we have included the resource impact again in our 2021/22 requested fees. This is the same request that has been submitted in the prior year.

Note 2: We intend to submit request for an additional fee due to additional work being undertaken by the audit team. For 2021/22 it includes work undertaken on:

- New Significant Risk: Nitrate Credits (£1,223)
- Work of EY expert to calculate an auditors estimate of the pension liability (£605)
- NDR Provision re-work x 2 (£4,885)
- EY Real Estates input (£3,095) for valuations of complex properties
- Additional consideration in relation to the revised IAS 19 balances as a result of the updated triennial valuation (£785)

Note 3: This figure shows the impacts of the NAO’s 2020 Code of Audit Practice, and the revised ISA540 on estimates. PSAA communicated fee ranges for each type of client, and our assessed impact for Test Valley BC is at the bottom of those ranges.

## Appendix C – Fees Relationships, services and related threats and safeguards

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The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

EY provided no non-audit services to the council for the year end 31 March 2022. As at the date of this report, there are no future non-audit services which have been contracted and no written proposal to provide non-audit services has been submitted.

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