

# Test Valley Borough Council Audit Results Report

Year ended 31 March 2024

February 2025





Audit Committee  
Test Valley Borough Council  
Beech Hurst  
Weyhill Road  
Andover  
SP10 3AJ

February 2025

Dear Audit Committee Members

2023/24 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit, which is now substantially complete.

The audit is designed to express an opinion on the 2023/24 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Test Valley Borough Council's (the Council) accounting policies and judgements and material internal control findings.

This report considers the impact of Government proposals, which have now been enacted through secondary legislation, to clear the backlog in local audit and put the local audit system on a sustainable footing. The proposals recognise that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit Committee, as the (Council's) body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

Given that Statutory Instrument 2024/907 "The Accounts and Audit (Amendment) Regulations 2024 ("SI 2024/907") imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

We have also taken into account SI 2024/907 and Local Authority Reset and Recovery Implementation Guidance Notes issued by the National Audit Office and endorsed by the Financial Reporting Council, together with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

As reported in our November 2024 Audit Completion Report, we issued a disclaimed audit report on the Council's financial statements for 2022/23 under the arrangements to reset and recover local government audit. As a result of the 2022/23 disclaimed audit report, we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we also do not have assurance over a number of 2023/24 in-year movements that depend on those opening balances, and therefore some closing balances. Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely

Andrew Brittain

Partner

For and on behalf of Ernst & Young LLP

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# Contents

01 Executive Summary



02 Areas of Audit Focus



03 Value for Money



04 Audit Report



05 Audit Differences



06 Assessment of Control Environment



07 Other Reporting Issues



08 Independence



09 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website [Statement of responsibilities of auditors and audited bodies from 2023/24 - PSAA](#). 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.



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# 01 Executive Summary



# Executive Summary – Context for the audit


## Context for the audit – Ministry of Housing, Communities and Local Government (MHCLG, formerly DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- ▶ Lack of capacity within the local authority financial accounting profession
- ▶ Increased complexity of reporting requirements within the sector
- ▶ Lack of capacity within audit firms with public sector experience
- ▶ Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

MHCLG (formerly DLUHC) has worked collaboratively with the FRC, and other system partners, to develop and implement measures to clear the backlog. SI 2024/907, together with the updated National Audit Office Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). The approach to addressing the backlog consists of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for audit of the 2023/24 financial statements is 28 February 2025.
- ▶ Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.



# Executive Summary – Context for the audit

## Context for the audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

As reported in our 20 November 2024 Audit Completion Report to the Audit Committee we issued a disclaimed audit report on the Council's financial statements for 2022/23 under these arrangements to reset and recover local government audit (Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance). The reasons for the 2022/23 disclaimed audit report were set out in the aforementioned 2022/23 Audit Completion Report.

As a result of the 2022/23 disclaimed audit report we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we also do not have assurance over a number of 2023/24 in-year movements that depend on those opening balances, and therefore some closing balances (particularly Reserves). We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements. We did not plan to rebuild this assurance in our 2023/24 audit.

As set out within Appendix A of this report we have not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over all closing balances. We have not been provided sufficient and appropriate evidence to support the valuations of Property, Plant & Equipment.

There is insufficient time and resource available to complete the above outstanding procedures before the 2023/24 backstop date. Lack of sufficient and appropriate evidence meant that audits took significantly longer than necessary, which was one of the factors that led to the backlog in the first place, and why the legislative backstop was introduced.

Taken together, and alongside the requirement to conclude the 2023/24 audit by the legislative back stop date of the 28 February 2025, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion. The extent of the disclaimed audit report will include the additional areas of the 2023/24 financial statements where we have not been able to gain sufficient assurance, over and above those we set out in our 2022/23 disclaimed audit opinion.

Appendix A of this report sets out the level of assurance we have been able to gain from the procedures that we have completed.

This is in line with the Government's legislative arrangements set out above and specifically the 'Recovery phase' of those arrangements and with guidance issued by the Financial Reporting Council (FRC) within their 'Accessible Guide' which sets out a minimum 3-year timeline to re-build audit assurances to gain full assurance over opening, closing balances and in year movements.

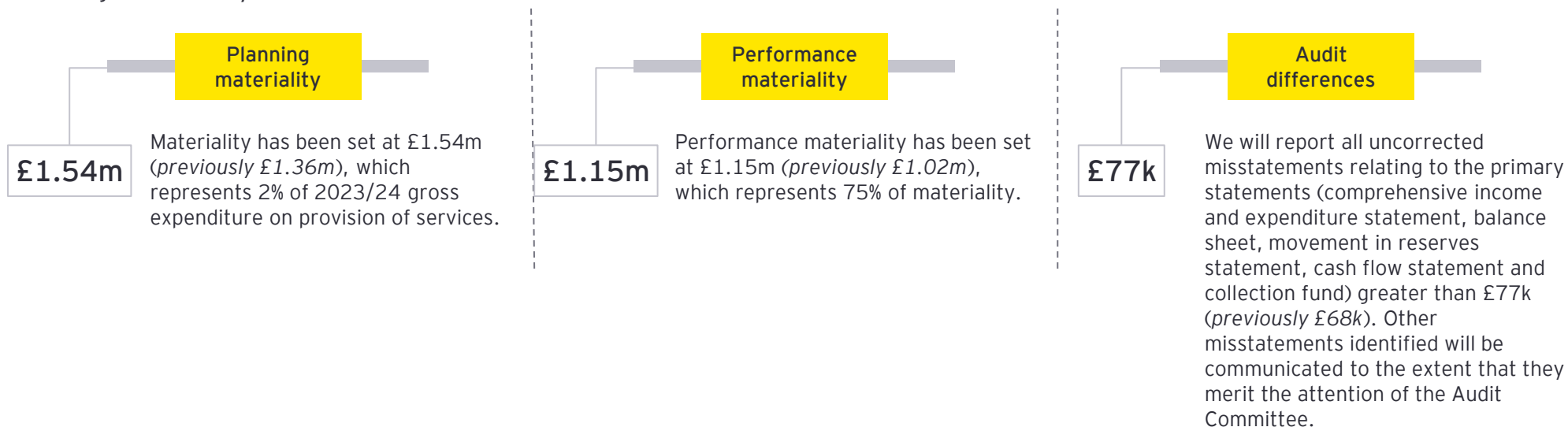
We will reflect on the impact of the areas where we did not gain our planned assurances in 2023/24, through our 2024/25 audit planning and set out our timeline for re-building audit assurance within our Audit Plan.

# Executive Summary

## Scope update

In our Audit Planning Report presented at the 17 June 2024 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

### ► Changes in materiality



### ► Changes in audit strategy due to being unable to obtain the GIA's (Gross Internal Areas) for PPE (Property, Plant & Equipment) valuations in relation to DRC (Depreciated Replacement Cost) and EUV (Existing Use Value) properties.

We are unable to complete our planned procedures for PPE valuations due to being unable to obtain the GIA's (Gross Internal Areas) from the Council. The GIA's are a fundamental input element in the valuation method and we have noted a lack of robust record retention in this area. Management have agreed to rectify this for 24/25.

Refer to Section 06 for Assessment of Control Environment.





# Executive Summary (cont'd)

## Status of the audit

Our work in respect of the Test Valley Borough Council audit opinion is complete.

## Value for Money

In our Audit Planning Report dated 17 June 2024, we reported that we had not fully completed our value for money (VFM) risk assessment but we had identified no risks of significant weaknesses in arrangements. Having updated and completed the planned procedures we did not identify any risks of significant weaknesses.

See Section 03 of the report for further details.

## Audit differences

We have noted a number of adjusted and unadjusted misstatements - please refer to Section 05 for more information.

# Executive Summary (cont'd)

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Test Valley Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is explained within the 'Areas of Audit Focus' section of this report and summarised below.

	Area of audit focus	Risk type	Status	Summary of findings/Comments
1	Misstatements due to fraud and error: Management override of controls	Fraud risk	Complete	As part of our Journals testing, we made an observation that there is no approvals process for posting journals. TVBC have stated that only accountants have the ability to post journals, but we believe that this is a necessary control that should be implemented.
2	Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	Complete	No significant matters have been identified in the completion of our work.
3	Accounting for Nitrate Credits	Significant risk	Complete	No significant matters have been identified in the completion of our work.
4	Valuation of Property, Plant and Equipment (PPE) and Investment Properties	Area of Audit Focus	Complete	We have been unable to obtain GIA's (Gross Internal Areas) for our sample selected for DRC (Depreciated Replacement Cost) and EUV (Existing Use Value) properties. Therefore, we have concluded we cannot obtain assurances over the closing balance of PPE.
5	Pension Liability Valuation	Area of audit focus	Complete	We have now received a response from the auditors of Hampshire Pension Fund to provide assurance over the information provided to the actuary and considerations of any issues that may arise from the 23/24 Hampshire Pension Fund. We also noted a misstatement amounting to £4.4m to 23-24 Pension Liability due to incorrect change in demographic assumptions and inflation experience used by the Actuaries, which has been corrected by management.
6	IFRS 16- Leases	Area of audit focus	Complete	Management approach to adopting IFRS16 is appropriate.



# Executive Summary (cont'd)

## Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2023/24. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2023/24 on which our work is based. The audit certificate will be issued once this work is complete.

We have no other matters to report.

## Areas of audit focus

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or the Board.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, 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 are required to communicate to you significant deficiencies in internal control identified during our audit.

As part of our Journals testing, we made an observation that there is no formal approval process for posting journals. TVBC have stated that only accountants have the ability to post journals, but we believe that this is a necessary control that should be implemented.

Refer to Section 06 for more details.

## Independence

Please refer to Section 08 for our update on Independence.



02

## Areas of Audit Focus

# Areas of Audit Focus

## Significant risk- Misstatements due to fraud or error\*

### △ Fraud Risk

#### What is the risk, and the key judgements and estimates?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

#### What is the status of our work?

No significant matters have been identified in the completion of our work.

We obtained the responses we requested from management, those charged with governance, monitoring officer and Internal audit and used these to inform our understanding of fraud risks. We noted the key elements of the entity level control framework that we would expect to see were in place.

- ▶ Our walkthrough testing included considering what controls are in place to address significant risks. We concluded that these are largely part year end processes including management review of the draft financial statements. We confirmed that these controls were in place, although our approach was not to rely on controls.
- ▶ We have not identified evidence of material management override but we have noted that there is no approvals process for posting journals. TVBC have stated that only accountants have the ability to post journals, but we believe that this is a necessary control that should be implemented - see Section 06 for more information.
- ▶ We have not identified any instances of inappropriate judgements being applied.
- ▶ We have not identified any transactions during our audit which appeared unusual or outside of the normal course of business.
- ▶ Our work on journals testing did not identify any issues.

#### Our response to the key areas of challenge and professional judgement

As set out in our Audit Plan, we confirm that we have performed the following procedures:

- ▶ Identified fraud risks during the planning stage of the audit.
- ▶ Enquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud and consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Assessed accounting estimates for evidence of management bias.
- ▶ Performed procedures to identify and evaluate the business rationale for any significant unusual transactions outside the normal course of business.

# Areas of Audit Focus

## Significant risk- Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

### △ Fraud Risk

#### What is the risk, and the key judgements and estimates?

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.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

#### What is the status of our work?

- ▶ We selected a sample of Property, Plant and Equipment (PPE) additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.
- ▶ Based on our sample testing of PPE additions we did not identify any instances where costs were not capital in nature, i.e. addition costs were directly attributable to the assets.
- ▶ We selected a sample of expenditure from Revenue Expenditure Funded from Capital Under Statute (REFCUS), to confirm it met the appropriate classification.
- ▶ We have not identified any instances of inappropriate journal entry postings in relation to capitalisation of revenue expenditure.

#### Our response to the key areas of challenge and professional judgement

As set out in our Audit Plan, we confirm that we have performed the following procedures:

- ▶ Tested Property, Plant and Equipment (PPE) additions using a low testing threshold to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ Assessed whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- ▶ Considered whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- ▶ Substantially tested REFCUS expenditure to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources.
- ▶ Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

# Areas of Audit Focus

## Significant risk- Accounting for Nitrate Credits

### Significant Risk

#### What is the risk, and the key judgements and estimates?

This is still a relatively new accounting concept for Local Authorities, without specific CIPFA guidance, and is only impacting a small number of entities. Due to this, we have continued to recognise this as a significant risk in year. On the Balance Sheet, Inventories are affected and there is also an impact on I&E.

In September 2020 the Department for Environment Food & Rural Affairs (DEFRA) announced the intention to set up a 'Nitrate trading' platform. The idea is that housing developers would be able to buy 'nitrate credits' to offset the footprint of new homes in areas particularly vulnerable to nitrate pollution. Credits could involve funding the creation of habitat like wetlands, meadows and woodland. Developers will need an 'Appropriate Assessment' of the development proposal if there is a likelihood to increase nitrogen loading into protected sites. A nitrogen budget must be calculated and if the site is not nitrate neutral then nitrate mitigation will be required. If this does not result in neutrality, then planning will be refused.

#### What is the status of our work?

- ▶ We selected a sample of Nitrate Credits to test and confirm the item was valued correctly and on an appropriate basis in the financial statements.
- ▶ Our procedures to respond to this area of focus are complete and we have no other findings to draw to your attention.

#### Our response to the key areas of challenge and professional judgement

As set out in our Audit Plan, we confirm that we have performed the following procedures:

- ▶ Ensured that the Nitrate Credits have been valued correctly and on an appropriate basis in the financial statements.
- ▶ Reviewed and challenged the Council's accounting and disclosure assessment as part of our work. This will need to consider both whether the nitrate credits held by the Council should be carried as an asset on its balance sheet and how revenue is recognised in the financial statements as the credits are sold.

# Areas of Audit Focus

## Area of audit focus: Valuation of Property, Plant and Equipment (PPE) and Investment Properties

### What is the risk, and the key judgements and estimates?

The current value of Land and Buildings (PPE) and the fair value of Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise.

Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY likewise. These estimates give scope for material errors, thus we identified a significant risk on the valuation of these assets.

### What is the status of our work?

We have completed our planned procedures and noted as follows:

We have been unable to obtain GIA's (Gross Internal Areas) in order for us to perform our work over DRC and EUV properties therefore we are unable to complete our planned procedures for PPE valuations. The GIA's are a fundamental input element in the valuation method and we have observed a lack of robust record retention in this area. Management have agreed to rectify this for 24/25.

Refer to Section 06 for Assessment of Control Environment for more information.

Regarding Investment Property valuations, we have completed our planned procedures and noted one corrected difference:

- **£160k** reduction to Investment Properties due to an item remaining on the Fixed Asset register that Test Valley Borough Council do not own anymore.

We have no other findings to draw to your attention.

### Our response to the key areas of challenge and professional judgement

As set out in our Audit Plan, we confirm that we have performed the following procedures:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, or assessing comparative market information);
- ▶ Challenged key assumptions used by the valuers;
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also have considered any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- ▶ Reviewed PPE assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered the potential impact of current economic environment on valuation uncertainties while also evaluating the need to involve our internal specialist valuations team;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.



# Areas of Audit Focus

## Area of audit focus: Pension Liability Valuation

### What is the risk, and the key judgements and estimates?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The Council's pension fund deficit is a material estimated balance, and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### What is the status of our work?

We have received the report from the Hampshire Pension Fund audit team in relation to their assurances over the information supplied to the actuary to enable the calculation of the valuation of the gross pension asset and liability at year end. There are no significant matters arising from this report

We engaged the services of an EY pensions specialist to review the Council's IAS 19 reports and run a parallel actuarial model which was compared to that produced by Hymans Robertson.

This work, has identified errors in some of the assumptions adopted by the actuary and, as a result, a further IAS 19 report was requested by the Council. Based on the revised report, management have reduced the net liability by £4.4m and updated the related disclosures. We are satisfied this revised valuation is accurate within a reasonable tolerance.

We have no other findings to draw to your attention at this stage.

### Our response to the key areas of challenge and professional judgement

As set out in our Audit Plan, we confirm that we have performed the following procedures:

- ▶ Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council
- ▶ Assessed the work of the pension fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team
- ▶ Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

# Areas of Audit Focus

## Area of audit focus: IFRS 16- Leases

### What is the risk, and the key judgements and estimates?

IFRS 16 Leases is being implemented in Local Government from 01 April 2024.

IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all but low-value or short term leases. The proposals arise partly from the IASB's view that:

- disclosures around operating lease commitments have lacked prominence and tended towards understatement; and
- even in leases where the underlying asset is not acquired for its whole useful life, the lessee nevertheless acquires an economic right to its use, along with obligations to make good on minimum lease payments.

These will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability.

As such, the Council is required to prepare readiness assessment disclosing known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

### What is the status of our work?

Our procedures to respond to this area of focus are complete.

Based on our review of management's approach and the processes in place to adopting IFRS16 management's approach was reasonable and compliant with the CIPFA Code.

We reviewed the disclosures made by management in the Financial Statements and concluded these were appropriate - management have now made explicit reference to IFRS 16.

### Our response to the key areas of challenge and professional judgement

As set out in our Audit Plan, we confirm that we have performed the following procedures:

- ▶ Evaluated the reasonableness assessment carried out by the Council
- ▶ Reviewed the disclosures made within the Council's financial statements in relation to IFRS 16 - Leases.
- ▶ Reviewed the disclosures made by management reflecting the anticipated impact of the adoption of the standard



# 03 Value for Money

# Value for Money

## The Authority's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the NAO Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment and status of our work

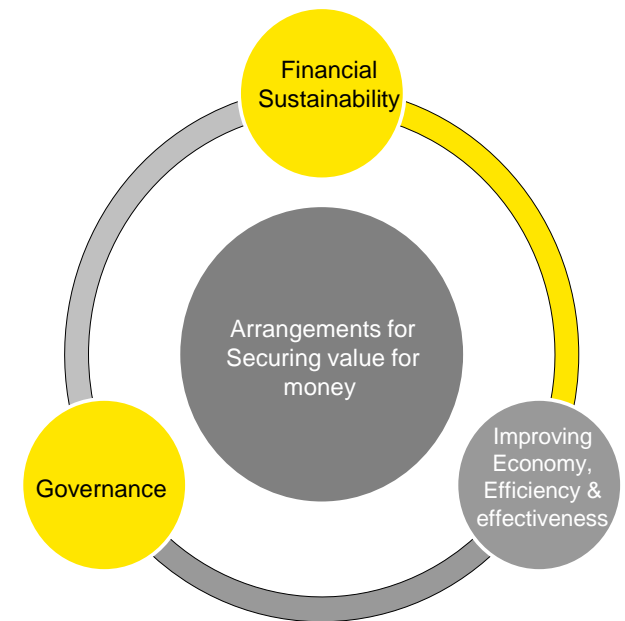
We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council arrangements against three reporting criteria:

- ▶ **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- ▶ **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks; and
- ▶ **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.

We have completed our detailed VFM work and identified no risks of significant weaknesses in arrangements. We will issue our VFM narrative commentary in our 2023/24 Auditor's Annual Report when we have concluded our audit.





# 04 Audit Report

# Audit Report

## Draft disclaimed audit report

## Our opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEST VALLEY BOROUGH COUNCIL

#### Disclaimer of Opinion

We were engaged to audit the financial statements of Test Valley Borough Council ('the Council') for the year ended 31 March 2024. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement
- the related notes 1 to 39 including material accounting policy information and including the Expenditure and Funding Analysis
- Collection Fund and the related notes

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 required any outstanding accountability statements for years ended 31 March 2015 to 31 March 2023 to be approved not later than 13 December 2024 and the accountability statements for the year ended 31 March 2024 to be approved not later than 28 February 2025 ('the backstop date').

The audit of the financial statements for the year ended 31 March 2023 for Test Valley Borough Council was not completed for the reasons set out in our disclaimer of opinion on those financial statements dated 26 November 2024.

Our planned audit work in the current year was focused on transactions in the year and the current year balance sheet.

Due to delays in receiving audit evidence in sufficient time before the backstop date, we have been unable to complete our audit procedures on; Property, Plant & Equipment (23/24 £126m, 22/23 £127m)

As a result of the disclaimer of opinion in the prior year and the backstop date, we also do not have sufficient appropriate audit evidence over the following:

- in the balance sheet and accompanying notes: the opening balances, closing reserves position and the valuation of property assets held at valuation included in 'other land and buildings' and heritage assets that were not revalued in year.
- in the comprehensive income and expenditure account and accompanying notes: comparatives and income and expenditure transactions that are impacted by the opening balances shown in the prior year balance sheet
- in the cash flow statement and accompanying notes: opening balances, comparatives and in-year cash flow movements that are calculated as a movement between the opening and closing balance sheet
- in the collection fund and accompanying notes: opening balances, comparatives and in-year movements that are calculated as a movement between the opening and closing balance

Therefore, we are disclaiming our opinion on the financial statements.

# Audit Report (cont'd)

## Our opinion on the financial statements

### Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit, performed subject to the pervasive limitation described above, or our knowledge of the Council.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

We have nothing to report in these respects.

### Responsibility of the Head of Finance & Revenues

As explained more fully in the Statement of Responsibilities for the Statement of Accounts 2023/24 set out on page 10, the Head of Finance & Revenues is responsible for the preparation of the Statement of Accounts 2023/24, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, for being satisfied that they give a true and fair view and for such internal control as the Head of Finance & Revenues determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance & Revenues is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

# Audit Report (cont'd)

## Our opinion on the financial statements

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Test Valley Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Test Valley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether the Test Valley Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until the NAO, as group auditor, has confirmed that no further assurances will be required from us as component auditors of Test Valley Borough Council.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

### Use of our report

This report is made solely to the members of Test Valley Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 85 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Brittain (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
Date





# 05 Audit Differences

# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements which have been corrected by management that were identified during the course of our audit and audit differences which are uncorrected by management above £76.8k.

### Audit findings leading to audit differences

We wish to bring to the attention of this committee the current findings of the audit which will result in audit differences. However, we are yet to fully conclude as review is still ongoing.

#### ➤ Corrected Audit differences:

- **Investment Property:** We noted a discrepancy between the valuation report from Carter Jonas and the Fixed Asset Register - the discrepancy was **£160k** and due to a property being no longer owned by Test Valley Borough Council but remained on the Fixed Asset Register. This has been corrected by Management.
- **Pensions:** A decrease of **£4.4m** to the net Pension Liability due to an incorrect change in demographic assumptions and inflation experience used by the Actuaries (Hymans Robertson)
- **Income & Expenditure Testing:** Removal of **£682k** in both income and expenditure in relation to a bed & breakfast rebate for homeless individuals which was not able to be claimed back in full.
- **Creditors:** s106 correction between creditors and earmarked reserves of **£241k**
- **Creditors:** s106 netting off between creditors and debtors of **£258k** - the contribution is held on behalf of another entity so has no income statement effect. This is a misstatement because the wrong amounts were raised initially, the £258k represents the actual error. Note that we have also extrapolated this error as well due to it being part of our representative sample - see below for uncorrected differences.

Throughout the course of our audit, we identified small number of disclosure adjustments:

- Related Party Note has been updated to disclose transactions with Valley Housing Ltd (subsidiary).
- Note 15 Leases required the following changes: Receivable within 1 year - to be increased to £9,563k, Receivable within 1 to 5 years - to be increased to £33,048k, Receivable after 5 years - to be reduced to £414,426k
- In Accounting Standards that have been issued but not yet been adopted - specific reference has been made to IFRS 16.
- Note 13 - the n/a has been removed for the Exit Packages note.

# Audit Differences (cont'd)

## Summary of adjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We ask that the Audit Committee request of management that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 <sup>st</sup> March 2024 (Currency'000)	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Income statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non-current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
<b>Errors</b>						
<b>Known differences:</b>						
▶ Incorrect adjustment of VAT		112	(112)			
<b>Judgemental differences:</b>						
▶ Housing Benefit overpayment debtor has been underprovided for		179	(179)			
▶ Projected misstatement: PPE Existence Testing: Car Park		808		(808)		
▶ Projected misstatement: Creditors: s106 amounts held on behalf of other entities			(2,792)		2,792	
<b>Balance sheet totals</b>			<b>(3,084)</b>	<b>(808)</b>	<b>2,792</b>	
<b>Income effect of uncorrected misstatements (before tax)</b>		<b>1,100</b>				
<b>Less: tax effect at current year marginal rate</b>		<b>0</b>				
<b>Cumulative effect of uncorrected misstatements before turnaround effect</b>		<b>1,100</b>				
<b>Turnaround effect. See Note 1 below.</b>		<b>0</b>				
<b>Cumulative effect of uncorrected misstatements, after turnaround effect</b>		<b>1,100</b>				

Note 1: turnaround effect is the post-tax impact of uncorrected misstatements related to the prior period, on results of the current period.



06

# Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

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.

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 are required to communicate to you significant deficiencies in internal control including group-wide.

As part of our Journals testing, we made an observation that there is no approvals process for posting journals. TVBC have stated that only accountants have the ability to post journals, but we believe that this is a necessary control that should be implemented.

We are unable to complete our planned procedures for PPE valuations due to being unable to obtain the GIA's (Gross Internal Areas) from the Council. The GIA's are a fundamental input element in the valuation method and we have noted a lack of robust record retention in this area. Management have agreed to rectify this for 24/25.

We also noted that there were some issues around the record keeping and recording of leases and we would recommend that this is reviewed - corrections have been made for 23/24 in the leases disclosure.

We also make reference to the quality of documentation provided to us - the quality of working papers provided to us has generally been of sufficient quality in the 23/24 audit. However, with listings for various classes of debtors and creditors, the level of detail was insufficient to enable us to select samples efficiently because multiple items were not provided at transaction level, thus we needed to obtain a new population and re-sample a number of times, which leads to an increase in audit time and cost.

## Reliance on internal audit

Our review and evaluation of controls is performed in conjunction with Internal Audit to minimise duplication and to rely on their work where appropriate.

As part of our assessment of Test Valley Borough Council's control environment we have reviewed the internal audit reports that were issued during the year. We have also made enquiries to internal audit to understand their view on the risks of fraud at Test Valley Borough Council.

We have not placed direct reliance on the work of internal audit to support our audit report.



07

## Other Reporting Issues

# Other Reporting Issues

## Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Test Valley Borough Council Statement of Accounts 2023/24 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Test Valley Borough Council Statement of Accounts 2023/24 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements, and we have no other matters to report.

## 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, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We cannot issue our Audit Certificate until these procedures are complete.

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

To date, we have not identified any issues which required us to issue a report in the public interest.

# Other Reporting Issues (cont'd)

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We wish to bring the following other matter to your attention; we anticipate that the current year audit report may be modified with respect to opening balances and prior period comparatives within the current year financial statements. This is because of the disclaimed prior period audit report. The form and content of the Audit Report is in section 04 of this report.



# Other Reporting Issues (cont'd)

## ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

Given that we have disclaimed the 2022/23 audit of the financial statements, we have undertaken ISA (UK) 315 (Revised) procedures for the first time in 2023/24.

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
  - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
  - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We set out the findings and conclusions from our work to implement ISA 315 in the table below.

### Audit Procedures

We performed the following procedures:

- We enquired with the authority as to the relevant material IT systems that would impact the statement of accounts or the audit.
- We made subsequent enquiries to understand the key IT process for the relevant material IT systems. This included the manage access, manage change and manage operation processes for these IT systems.

### Audit findings and conclusions

We identified the following relevant material IT systems for the authority; eFinancials, Capita (Pay 360), Northgate iTrent. Our understanding the IT processes for the authority's material IT systems did not result in any additional audit risks for the audit.



**08** Independence

# Independence



## Confirmation

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors 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 our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

## Relationships

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Services provided by EY

There are no services provided by EY from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence - Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As set out in our Audit Planning Report the agreed fee presented was based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statements opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities.

If any of the above assumptions prove to be unfounded, we seek a variation to the agreed fee. This will be discussed with the Council in advance.

	Current Year	Scale fee	Prior Year
	£m	£m	£m
Total Fee - Code Work	£151,049	£151,049	Note 1
Proposed scale fee variation	Note 2	N/A	0
<b>Total audit</b>	<b>TBC</b>	<b>£151,049</b>	<b>TBC</b>
<b>Total other non-audit services</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fees</b>	<b>TBC</b>	<b>£151,049</b>	<b>TBC</b>

*All fees exclude VAT*

(1) PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2022/23. In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

(2) Following the completion of the 2023-24 work a final proposed fee will be determined. As explained in our Audit Planning Report, for 2023-24 the planned fee represents the base fee, i.e. not including any extended testing. We will estimate the impact of the additional audit procedures performed will include (i) to respond to the requirements of ISA315 (ii) to respond to the additional audit risks in relation to the IFRS 16, (iii) delays in obtaining information for PPE valuation, (iv) data analytics issues including mapping the trial balance to the Statement of Accounts, (v) issues with the s106 testing and errors, and any other areas where the audit work required was additional to the scope planned within the scale fee.

All additional scale fee adjustments are subject to PSAA approval.



09

## Appendices

# Appendix A – Summary of assurances

## Summary of Assurances

As we have set out in the Executive Summary of this report, we anticipate issuing a disclaimer of opinion on the 2023/24 financial statements. Due to the disclaimer of opinion issued on the 2022/23 financial statements, we do not have assurance over the comparative figures disclosed in the financial statements, the opening balance position on 1 April 2023, the closing reserves balances on 31 March 2024 or the in-year movements recorded in the Comprehensive Income and Expenditure Statement. This is considered material and pervasive to the 2023/24 financial statements. The table below summarises the audit work we have completed, which is subject to final review and quality assurance procedures, on the 2023/24 financial statements to demonstrate to the committee the level of assurance that has been obtained as a result of the financial statements audit. We do not provide a separate opinion on these matters as the assurance we have gained is in the context of our audit of the financial statements as a whole, and our disclaimer of opinion on those financial statements.

Account area	Assurance rating	Summary of work performed
Property, Plant and Equipment ('PPE')	None	We have completed testing of the 2023/24 additions and disposals to the fixed asset register and performed procedures to obtain assurance over the existence of assets on the fixed asset register and the Council's right to recognize those assets. However, we do not have assurance over the PPE closing balance, due to the disclaimed opinion for 2022/23 meaning we did not test material movements in the fixed asset register for additions, disposals, revaluation and depreciation in that year and therefore have no assurance over those properties not valued in year. Also, we were not able to complete our planned procedures for PPE valuations due to being unable to obtain the GIA's (Gross Internal Areas) from the Council for properties which were valued in year. The GIA's are a fundamental input element in the valuation method and we have noted a lack of robust record retention in this area. Until we are able to rebuild assurance over PPE additions, disposals and revaluations in the disclaimed periods, we are unable to obtain full assurance over the completeness and valuation of PPE at 31 March 2024.
Investment Property	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Inventories	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Long Term Investments	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Long Term Debtors	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Short Term Investments	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Short Term Debtors	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.

# Appendix A – Summary of assurances

## Summary of Assurances

Account area	Assurance rating	Summary of work performed
Cash and Cash equivalents	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Creditors (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Borrowings (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Provisions (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Local Government Pension Scheme Liability	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Other Disclosures	Partial	We have completed our planned work in this area for 2023/24 but, as we do not have assurance over the opening balance position at 1 April 2023, we are unable to obtain assurance that all of the in-year movements recorded are accurate.
Cash Flow Statement	Partial	We have tested all Cash Flow movements arising from 2023/24 transactions but, as we do not have assurance over movements across the disclaimed period, and therefore the opening balance for 2023/24, we do not have full assurance over the Cash Flow Statement at 31 March 2024.
Reserves (including Movement in Reserves Statement)	None	Until we have completed our work programme on the rebuilding of assurance following the disclaimed audit opinions, we are unable to obtain assurance over the useable and unusable reserves of the Council reported in the financial statements. We will provide more information on our proposed approach for rebuilding of assurance as part of our 2024/25 audit planning reports.
Comprehensive Income and Expenditure Statement (including the Housing Revenue Account)	Partial	We have completed our planned testing on the Comprehensive Income and Expenditure Statement in 2023/24 but, as we do not have assurance over the opening balance position at 1 April 2023, we are unable to obtain assurance that all of the in-year movements recorded in the statement are accurate.
Collection Fund	Partial	We have completed our planned work in this area for 2023/24 but, as we do not have assurance over the opening balance position at 1 April 2023, we are unable to obtain assurance that all of the in-year movements recorded are accurate.

# Appendix B - Required communications with the Audit Committee

## Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit Planning Report at the Audit Committee on 17 June 2024
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>



# Appendix B - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>

# Appendix B - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report at the Audit Committee on 17 June 2024</p> <p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>

# Appendix B - Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	<p>Draft Audit Results Report at the Audit Committee on 17 February 2025</p> <p>Final Audit Results Report - February 2025</p>

# Appendix C - Accounting and regulatory update

## Accounting and regulatory update

### Accounting update

Since the date of our last report to the Audit Committee, a number of new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Test Valley Borough Council
IFRS 16 Leases	<ul style="list-style-type: none"><li>▶ CIPFA have confirmed there will be no further delay of the introduction of the leases standard IFRS 16.</li><li>▶ Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability.</li><li>▶ Lease liabilities and right of use assets will be subject to more frequent remeasurement.</li><li>▶ The standard must be adopted by 1 April 2024 at the latest</li></ul>	<ul style="list-style-type: none"><li>▶ We have assessed the Council's readiness to implement IFRS 16 as part of our 2023/24 programme of work. That assessment considered:<ul style="list-style-type: none"><li>▶ The Council's processes to collect the required data.</li><li>▶ Whether reasonable accounting policy choices had been made.</li><li>▶ Whether relevant finance staff are familiar with the requirements of the CIPFA Code in this area and training has been provided.</li><li>▶ The transitional and ongoing accounting arrangements that have been established.</li><li>▶ Systems and processes to establish and distinguish between lease remeasurements and modifications.</li></ul></li><li>▶ Based on this assessment we have concluded that the Council has reasonable arrangements in place to support the adoption of IFRS 16 in 2024/25.</li></ul>

# Appendix D – Management representation letter

## Management representation letter

### Management Rep Letter

Dear Andrew,

#### Letter of Representation – Test Valley Borough Council

This letter of representations is provided in connection with your audit of the financial statements of Test Valley Borough Council (“the Council”) for the year ended 31 March 2024. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Test Valley Borough Council as of 31 March 2024 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the Code, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the Code, that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because of this overall immateriality and the negligible impact it would have on any reader of the accounts.

6. We confirm the Council does not have securities (debt or equity) listed on a recognised exchange.

#### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

# Appendix D – Management representation letter

## Management representation letter

### Management Rep Letter

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- involving financial improprieties;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ▶ Additional information that you have requested from us for the purpose of the audit; and
- ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have disclosed to you the use of all applications or tools using artificial intelligence, including generative artificial intelligence, that are reasonably likely to have a direct or indirect material effect in the financial statements.

4. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the financial year to the most recent meeting on 17 February 2025.

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the Code.

7. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

8. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorised access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

# Appendix D – Management representation letter

## Management representation letter

### Management Rep Letter

#### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 36 to the financial statements all guarantees that we have given to third parties.

#### E. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in the financial statements. All assets to which the Council has satisfactory title appear in the balance sheet.
2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in the financial statements, we have no other line of credit arrangements.

#### F. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the values of property, plant & equipment and investment properties and the values of pension liabilities and assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### G. Estimates

##### Property, plant and equipment, investment properties and net pension liability

1. We confirm that the significant judgments made in making the valuations of property, plant & equipment, investment properties and net pension liability ('the accounting estimates') have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out valuations on behalf of the Council.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty, are complete and are reasonable in the context of the Code.
5. We confirm that appropriate specialised skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements.

#### H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

#### I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

# Appendix D – Management representation letter

## Management representation letter

### Management Rep Letter

#### J. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

#### K. Going Concern

1. Note 38 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### L. Subsequent Events

1. Other than described in Note 37 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### M. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information contained within the Narrative Statement and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

3. We confirm that the Annual Governance Statement for 2023/24 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2023/24 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.

#### N. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered including the impact resulting from the commitments made by the Council and reflected in the financial statements.

Yours faithfully,

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Carl Whatley FCCA  
Head of Finance & Revenues

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Cllr Carl Borg-Neal  
Chairman of the Audit Committee



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