

Test Valley Borough Council

Auditor's Annual Report
Year ended 31 March 2025
March 2026



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

March 2026

Dear Audit Committee Members

2024/25 Auditor's Annual Report

We are pleased to attach our Auditor's Annual Report including the commentary on the Value for Money (VFM) arrangements for Test Valley Borough Council (the 'Council'). This report and commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit year 2024/25.

This report is intended to draw to the attention of the Council any relevant issues arising from our work up to the date of issuing the report. It is not intended for, and should not be used for, any other purpose.

The [2025 Transparency Report](#) for EY UK provides details regarding the firm's system of quality management, including EY UK's system of quality management annual evaluation conclusion as of 30 June 2025.

This report is the finalised version of the report presented at the Audit Committee meeting on 23 March 2026.

Yours faithfully

Andrew Brittain
Partner, For and on behalf of Ernst & Young LLP
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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>)

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.



01 Executive Summary

Executive Summary

Purpose

The Auditor's Annual Report summarises the year's audit work, including value for money commentary and confirmation of the financial statement opinion. It also references any use by the auditor of their additional powers and duties under the Local Audit and Accountability Act 2014. In line with the NAO Code of Audit Practice 2024 ("the 2024 Code") and Auditor Guidance Note 03 (AGN 03), this report provides an overview to Test Valley Borough Council and the public, detailing current recommendations and a review of prior years' actions, including our assessment of whether they have been satisfactorily implemented.

Responsibilities of the appointed auditor

We have undertaken our 2024/25 audit work in accordance with the Audit Plan that we issued on 30 April 2025. We have complied with the 2024 Code, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- whether the financial statements give a true and fair view of the financial position of the Council and its expenditure and income for the year; and
- have been prepared properly in accordance with the relevant accounting and reporting framework.

Reporting by exception:

- if the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- the use of additional powers and duties, for example making written recommendations under Section 24 and Schedule 7 of the Act or making a report in the public interest; and
- if we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of Test Valley Borough Council

The Council is responsible for the preparation of the financial statement, including the narrative statement and governance statement, in accordance with the CIPFA Code and for having internal controls in place to ensure these financial statements are free from material error. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Executive Summary (cont'd)

2024/25 conclusions

Financial statements	<p>Disclaimer: As reported in our February 2025 Audit Results Report we issued a disclaimer of opinion on the Council's 2023/24 financial statements and 2022/23 financial statements under these arrangements to reset and recover local government audit.</p> <p>As a result of the disclaimer of opinion on the 2023/24 Statement of Accounts, we do not have assurance over some brought forward balances from 2023/24 where we did not gain assurance (the opening balances). This means we do not have assurance over all 2024/25 in-year movements and the comparative prior year movements. We also do not have assurance over all the 2023/24 comparative balances disclosed in the 2024/25 Statement of Accounts. Taken together with the requirement to conclude our work by the 2024/25 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2024/25 Statement of Accounts are free from material and pervasive misstatement of the Statement of Accounts. This is consistent with the illustrative timescale for the process of re-building assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01 (see page 14).</p> <p>In discussion with management, they have concluded that they are unable to provide accurate GIA's (Gross Internal Areas) in the time available in order for us to perform our work over PPE valuations. Therefore, we are unable to complete all our planned procedures on the 2024/25 financial statements and have not been able to start rebuilding assurance ahead of the planned backstop date of 27 February 2026. We therefore have issued a disclaimed 2024/25 audit opinion on 26 February 2026.</p>
Going concern	Where a disclaimer of opinion is issued on the financial statements, we do not conclude on whether the use of the going concern basis of accounting is appropriate.
Consistency of the other information published with the financial statements	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of Government Accounts	We have not yet concluded the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the NAO have not yet confirmed the final reporting position and whether any questions will be raised on individual returns. We cannot issue our Audit Certificate until these procedures are complete.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required as part of the Whole of Government Accounts submission.

Executive Summary (cont'd)

Value for money scope

Under the 2024 Code, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

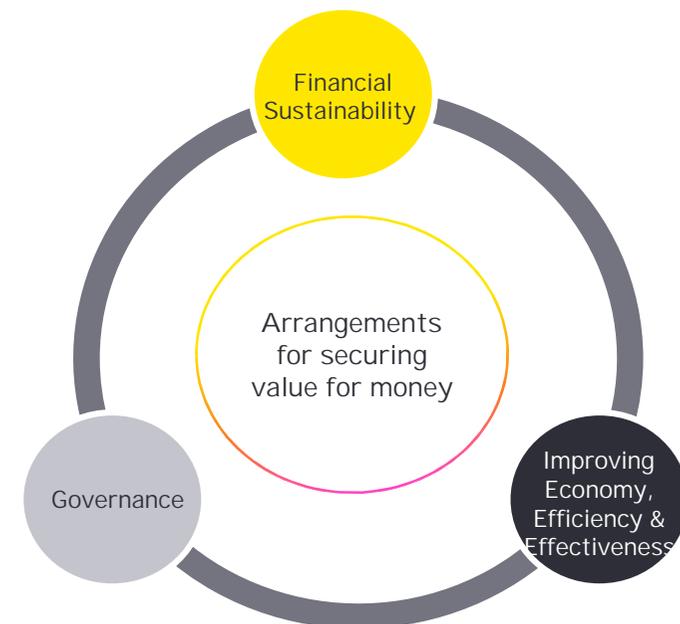
We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's report on the financial statements.

The specified reporting criteria are:

- 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.
- 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.

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Head of Finance and Revenues;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.



Executive Summary (cont'd)

Reporting

Our commentary for 2024/25 is presented in Section 03. This section provides a summary of our understanding of the arrangements at the Council, as determined from our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2024/25 and up to the date of issuing this Auditor's Annual Report, which must be issued by 30 November. The recommendations we have agreed upon with the Council are included in Appendix A.

The final version of this report will be issued alongside the signed audit report concluding on the 2024/25 year.

In compliance with the 2024 Code, we are required to provide commentary against the three specified reporting criteria. The table below outlines these criteria, indicates whether a significant risk of weakness was identified during our planning procedures, and details our current conclusions regarding any significant weaknesses within your arrangements.

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

Executive Summary (cont'd)

Independence

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

There are no relationships from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2025

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2025:

[EY UK 2025 Transparency Report](#)



02 Audit of financial statements

Audit of financial statements

Key findings

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

Our audit of the 2024/25 financial statements is complete.

Financial statement risks

Significant risk

Conclusion

Misstatements due to fraud or error – Management override of controls

We completed our planned procedures with no significant matters identified.

Misstatements due to fraud or error – capitalisation of revenue expenditure

We completed our planned procedures with no issues identified.

Valuation of Property, Plant & Equipment (Land & Buildings) and Valuation of Investment Properties

Through our testing of PPE we noted that the GIA's (Gross internal Areas) for our sample selected of DRC (Depreciated Replacement Cost) and EUV (Existing Use Value) properties, the Valuer had used GIA's which were not consistent with the GIA that were evidenced. Therefore, we concluded we cannot obtain assurances over the closing balance of PPE

We concluded our work over investment property with no issues arising.

Accounting for Nitrate Credits

Testing was completed with no significant matters identified.

S106 Creditors

Testing was completed with no significant matters identified.

Audit of financial statements (cont'd)

Financial statement risks

Significant risk

Conclusion

Pension Liability Valuation

Since publishing of the draft accounts, the Pension Fund actuary has provided an updated IAS 19 report leading to corrected differences increasing the FV of plan assets and impact of asset ceiling of £1,776k.

In addition to the procedures performed by the local audit team, we engaged our internal pensions specialists to support the audit work relating to the valuation of the Council's pension liability, including the roll-forward of liabilities. We received the final memorandum from the EY pensions specialist, and no material differences were noted from the IAS 19 updated report. Further, we received the response to our letter sent to the pension fund auditor, who shared that TVBC had a £96k share of the differences noted in their audit procedures. This was not material to the financial statements and therefore not adjusted in the final signed version of the Statement of Accounts.

IFRS 16 – Leases

We completed our planned procedures. We identified misstatements in disclosures and a required audit adjustment for an incorrect journal posted on the implementation of IFRS 16, which was corrected by management to the value of £640k.

Audit of financial statements

Financial Statement reporting assessment

Management, and the Audit Committee, as the Council's body charged with governance, have an essential role in supporting the delivery of an efficient and effective audit. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. The table below sets out our views on the effectiveness of the Council's arrangements to support external financial across a range of relevant measures.

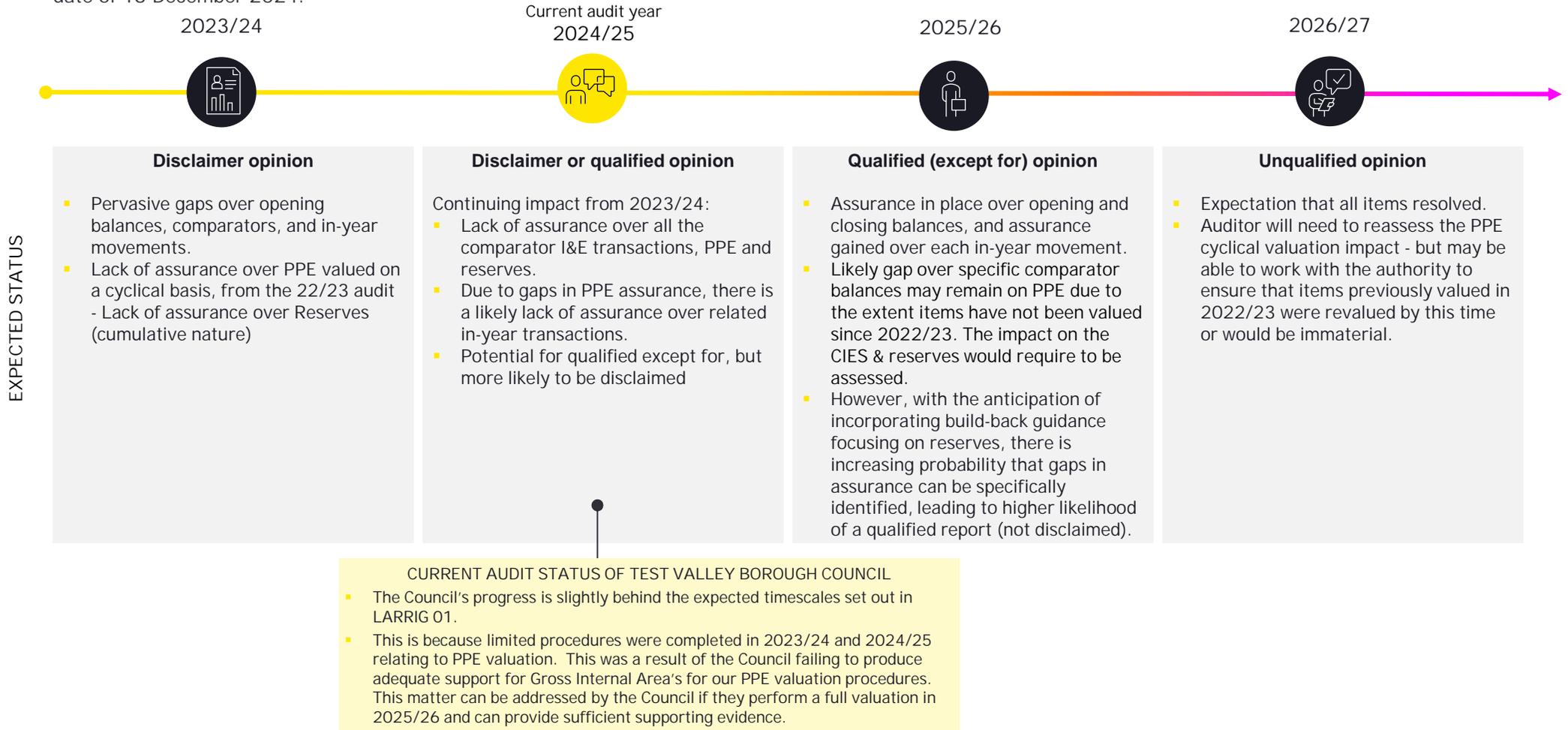
Where we have been unable to undertake all planned procedures this is likely to extend the timetable to recover assurance on the Council's financial statements.

Area	Status			Explanation
	R	A	G	
Timeliness of the draft financial statements	Effective			The financial statements were published by the 30th June 2025 deadline set out in the Accounts and Audit Regulations.
Quality and completeness of the draft financial statements	Effective			Whilst some errors were identified in the draft financial statements, we did not identify a significant number of material internal inconsistencies or arithmetic errors in the draft financial statements that should have been detected through internal quality review prior to publication. The typographical errors were not fundamental to the understanding of users of the financial statements.
Delivery of working papers in accordance with agreed client assistance schedule	Effective			Working papers were generally provided to the agreed timetable.
Quality of working papers and supporting evidence	Effective			Working papers and supporting evidence were generally of a good standard –we suggest reviewing the working papers process with a focus on simplifying navigation and improving overall usability, which will contribute to a more seamless workflow.
Timeliness and quality of evidence supporting key accounting estimates	Ineffective			Significant delays were experienced in the provision of supporting evidence from the Council's valuer for the valuation of PPE and IP assets. Furthermore, for PPE valuations the support provided did not agree to the basis of the valuations resulting in no assurance being able to be provided for the account. This resulted in significant delays to the audit process.
Access to finance team and personnel to support the audit in accordance with agreed project plan	Requires improvement			Overall, there were no major issues with access to the finance team and key personnel. However, we experienced longer delays in relation to PPE and IP due to a limited number of personnel in the property management team - the delay adversely impacted our ability to progress our planned procedures.
Volume and value of identified misstatements	Requires improvement			A number of material misstatements were detected as a result of our work which have been corrected by management. There was also a prior year adjustment relating to assets not previously recorded on the balance sheet which has resulted in additional procedures required.
Volume of misstatements in disclosures	Effective			We noted some misstatements in disclosures however, the volume and nature were not significant which would indicate improvement is required

Audit of financial statements

Progress to full assurance

Set out below is the illustrative timescale for the process of re-building assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council's actual progress against that timescale, the reasons for that and what still needs to be done to successfully rebuild assurance. The timetable set out in LARRIG 01 assumes that disclaimers for 2022/23 and all prior open audit years were issued by the statutory backstop date of 13 December 2024.





03 Value for Money commentary

Value for Money

The Council's responsibilities for value for money

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 the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Our responsibilities

Under the revised NAO Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. Our summary is below:

	Significant risk identified	Significant weakness identified	Other matters identified
 <p>Financial sustainability How the Council plans and manages its resources to ensure it can continue to deliver its services.</p>	<ul style="list-style-type: none"> No significant risks identified 	<ul style="list-style-type: none"> No significant weaknesses have been identified during our procedures 	<ul style="list-style-type: none"> No matters identified
 <p>Governance How the Council ensures that it makes informed decisions and properly manages its risks.</p>	<ul style="list-style-type: none"> No significant risks identified 	<ul style="list-style-type: none"> No significant weaknesses have been identified during our procedures 	<p>The Council should put the AGS on the same page of their website as the draft financial statements, and/or ensure it is a separately searchable document, in future years, for ease of access and to comply explicitly with the Accounts and Audit Regulations 2015</p>
 <p>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.</p>	<ul style="list-style-type: none"> No significant risks identified 	<ul style="list-style-type: none"> No significant weaknesses have been identified during our procedures 	<p>The Council should implement a more robust framework for monitoring partnership arrangements. This includes implementing a structured process to track project milestones and financial commitments, enabling timely accruals for additions.</p>



VFM commentary: Financial Sustainability

Financial sustainability: Our audit procedures

Our audit procedures obtained assurance over the arrangements in place for the Financial Sustainability sub-criteria set out in AGN03:

- How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the body plans to bridge its funding gaps and identifies achievable savings;
- How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Significant risks identified during planning procedures

Within our Audit Planning Report, we identified no risks of a significant weakness in the Council's arrangements for financial sustainability. In prior years, no significant weaknesses were identified and there are no outstanding recommendations relating to prior years. The Council's underlying arrangements in relation to financial sustainability are not significantly different in 2024/25.

Overview of our conclusions

Based on the work performed, the Council had proper arrangements in place in 2024/25 to plan and manage its resources to ensure it can continue to deliver its services.



Financial Sustainability considerations

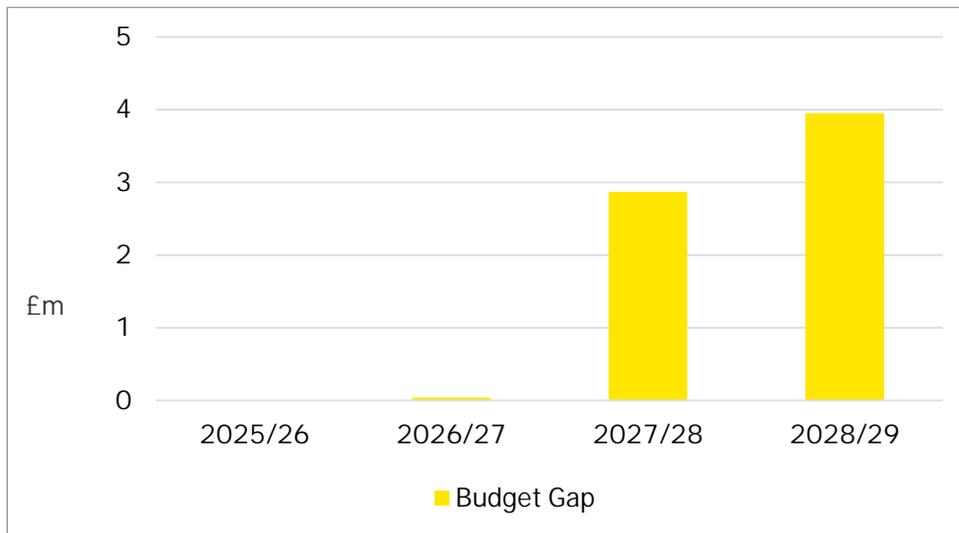
Medium Term Financial Strategy

The Medium Term Financial Strategy (MTFS) sets the strategic framework for achieving long-term financial sustainability; it was approved by Cabinet on 19 November 2025. It supports delivery of the Council Plan's priorities over four years in a cost-effective way. By forecasting the council's financial position, it enables robust planning that considers key pressures, major financial challenges, and economic influences at all levels, alongside local priorities. It is closely linked to the Capital Programme Strategy and Treasury Management Strategy to guide the delivery of the objectives for the borough.

The MTFS sets out the key financial assumptions that have been made in producing the MTF and sets out a proposed framework within which to work over the life of the strategy. The most recent MTFS details key budget pressures and notes the most significant pressures come from inflation, a potential lowering of interest rates, and the easing of any mitigation from the funding review.

Exhibit A, below outlines that the Council anticipate a budget gap of £3.95 million by 2028/29, the gap is intended to be closed through a mixture of savings plans and use of reserves; the Council regularly monitors and updates the forecasts based on the most available information at the time.

Exhibit A: The Council's MTFP outlines a cumulative gap of £3.95 million by 2028/29





Financial Sustainability considerations

Budget Monitoring

Budget monitoring reports are critical for those charged with governance to make decisions about the prioritisation of resources. The Quarterly revenue Budget Monitoring report presented to Cabinet 19 November 2025 highlighted a favourable outturn to budget of £686k.

This has been driven by favourable variances relating to Net Investment Income of £288k and Property & Asset Management of £169k. The Council provides detailed explanations of variances against budget in its quarterly revenue monitoring reports. Overall, the Council's financial outlook at Q1 is robust, but ongoing monitoring of pressures remains essential.

We have no recommendations to make regarding budget monitoring arrangements. While the Council faces medium-term challenges, including a projected funding gap of £3.9m by 2028/29, its approach, comprising regular monitoring, prudent use of reserves, and a multi-pronged savings strategy, provides a reasonable basis for maintaining financial resilience. Continued focus on delivering planned savings and managing emerging risks will be critical.



Financial Sustainability considerations

Savings plans

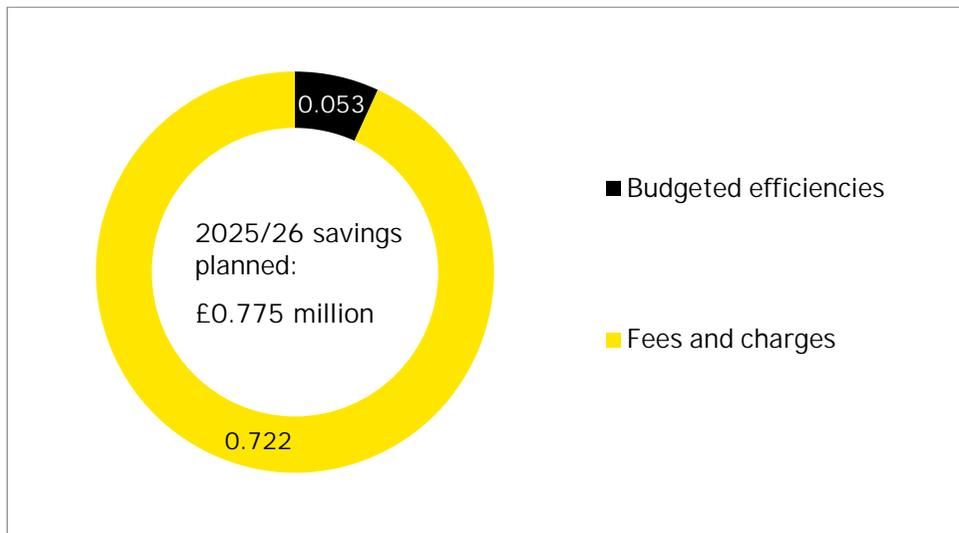
The Council's budget update presented to Cabinet in January 2025 identified the delivery of the £0.425m savings proposals, as well as £0.35M set out in the Medium Term Financial Strategy (MTFS).

There was a higher-than-expected garden waste income, resulting in a £50k improvement of the MTFS for the 3 years 25/26 to 27/28. Further there is a planned increase in Planning Fees income improving the MTFS by £200k per year. The additional savings identified in the budget update was largely from recycling income, from the sale of glass £220k, and from other increases in income due to amounts currently being forecast £111k.

From the 24/25 Revenue outturn we can see that the council delivered a £161.8k underspend to budget, showing accurate financial planning and that the council is able to achieve budgeted savings plans.

Exhibit B, below outlines that the Council plan to deliver £0.775 million savings in 2025/26.

Exhibit B: The Council expects to deliver a further £0.775 million in 2025/26





Financial Sustainability considerations

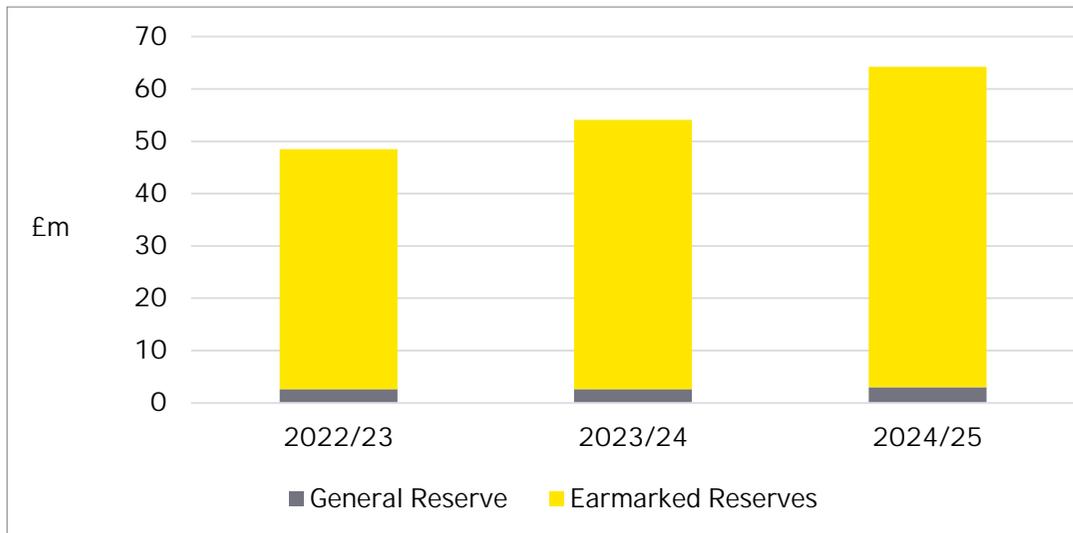
Reserves position

Test Valley Borough Council consider their reserves and reserves forecast as part of their MTFS and budget setting. The Council plans to maintain the general reserve at a minimum of £2.5m, with the reserves to have a working balance of £3m. The Council maintains reserves to enable it to respond effectively to unexpected events and opportunities. At 1 April 2024 the General fund reserve stood at £2.6m, which was increased to £3.0m at 31 March 2025.

Overall, the trend has been positive with reserves being maintained, which suggests prudent financial management – though future pressures (e.g., funding changes, cost inflation) remain relevant.

Exhibit C shows the reserves position through the years showing a positive trend, as per Exhibit A, the Council is forecast to have a cumulative gap of £3.95m by 2028/29 which will be funded through a mix of savings and use of reserves so we expect the reserves balance to reduce slightly over the next few years.

Exhibit C: The Council's unallocated General Reserve grew to target working balance in 2024/25





Financial Sustainability considerations

Outturn position

Test Valley Borough Council delivered a £162k improvement on the previously forecast balanced position. This surplus has been transferred to Asset management Plan Reserves to for future use. The budget set included known budget pressures, budget savings, funding assumptions and proposed use of reserves.

The most notable variances include:

Housing & Environment Health underspend - £2,094k

Property & Asset Management overspend - £2,079k

Depreciation & Capital charges underbudgeted (favourable) - £3,599k

Investment income received overbudget (favourable) - £742k

Transfer to Earmarked reserves (transfer above budget) - £3,511k

Exhibit D: The Council recorded an overall underspend against budget in 2024/25

Title	Budget £k	Expenditure £k	(Underspend) /Overspend £k
Service Requirements	17,901	19,203	1,302
Other Requirements	2,360	2,625	265
Corporate Requirements	(15,319)	(20,414)	(5,094)
Transfers in reserves	14,284	17,650	3,366
Total	19,227	19,065	(162)



VFM commentary: Governance

Governance: Our audit procedures

Our audit procedures obtained assurance over the arrangements in place for the Governance sub-criteria set out in AGN03:

- How the body monitors and assesses risk and how the body gains assurance over the effective operations of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer and member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services.

Significant risks identified during planning procedures

Within our Audit Planning Report, we identified no risks of a significant weakness in the Council's governance arrangements. In prior years, no significant weaknesses were identified and there are no outstanding recommendations relating to prior years. The Council's underlying arrangements in relation to governance are not significantly different in 2024/25.

Overview of our conclusions

Based on the work performed, the Council had proper arrangements in place in 2024/25 to make informed decisions and properly manage its risks.

We noted one recommendation around the Annual Governance Statement:

Recommendation:

- The Council should put the AGS on the same page of their website as the draft financial statements, and/or ensure it is a separately searchable document, in future years, for ease of access and to comply explicitly with the Accounts and Audit Regulations 2015



Governance considerations

Annual Governance Statement

The Annual Governance Statement (AGS) details the effectiveness and compliance with the governance structure at the end of each financial year. The (AGS) is prepared in accordance with the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government (2016) – and meets the statutory requirement under the Accounts and Audit Regulations 2015. Test Valley Borough Council confirms that its governance arrangements are designed to ensure lawful, transparent, and accountable decision-making, safeguarding public money and promoting continuous improvement. The governance framework is underpinned by the Local Code of Corporate Governance, which is reviewed and updated as necessary and approved by the Audit Committee.

The Annual Governance statement was presented at the June Audit Committee, it also highlights governance actions for 2025/26 which includes:

- Governance: Non-compliance with CIPFA recommended practice for Audit Committees as there is no independent member on the Committee. This has now been actioned.
- Management Development: Recognition in the Corporate Peer Challenge that there is scope to develop the capacity of managers to drive transformation in the organisation.
- Use of data in decision making: Strengthen the use of performance and data to better inform continuous service improvement, evaluation of impact, benefit and value for residents.
- Governance training and awareness for senior officers: Internal Audit reviews identified inconsistency in the level of knowledge related to areas such as procurement and contract management.

In line with Section 15, Para.2 of the Accounts and Audit Regulations 2015, the AGS must accompany the Statement of Accounts on the Council's website during the Public Rights period. We have confirmed from the Council's website that the AGS was available to be viewed from 16 June 2025 and therefore was available to view at the same time as the draft financial statements and, because it was included in the papers of a meeting, was not identifiable through the website's search function.

Recommendation 1

The Council should put the AGS on the same page of their website as the draft financial statements, and/or ensure it is a separately searchable document, in future years, for ease of access and to comply explicitly with the Accounts and Audit Regulations 2015



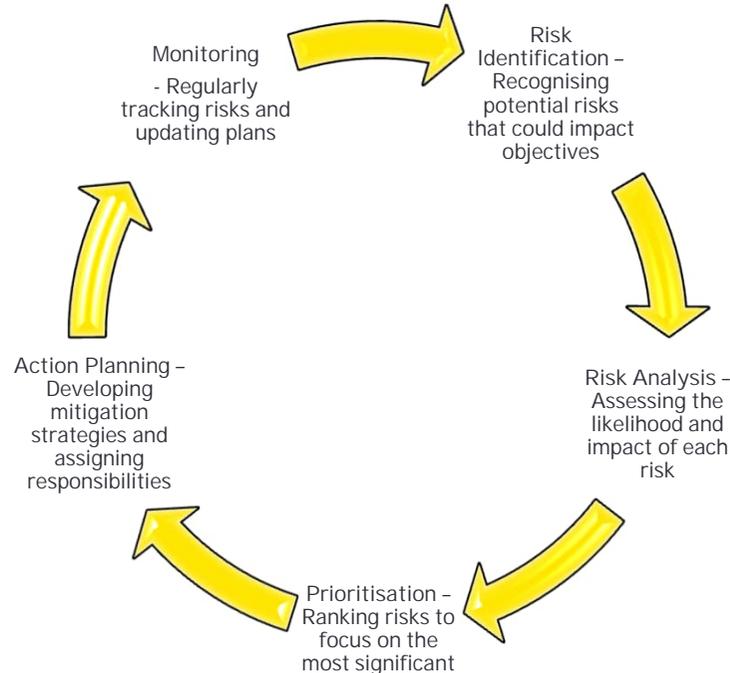
Governance considerations

Risk Management

Test Valley Borough Council manages risks through a structured Risk Management Strategy that is embedded in its corporate planning and governance processes. The approach involves identifying, analysing, and prioritising risks, followed by action planning and regular monitoring. Risk registers are maintained at both corporate and service levels, and oversight is provided by senior management and the Audit Committee. Internal audit offers independent assurance, ensuring compliance with statutory regulations and alignment with best practice standards.

A workshop was held with the Senior Management Team in August to review the register. The risk register was last reviewed by the Audit Committee on the 22 September 2025 where one new risk was added to the register pertaining to the potential impact of Local Government Reorganisation; it also included potential consequences, mitigating actions required with due dates and responsible officers. This is regularly monitored and updated and the latest risk registers shows that risks remained stable or that mitigations has been put in place to reduce the risk score since the last update.

Exhibit E: Test Valley Borough Council's Risk Management Cycle





Governance considerations

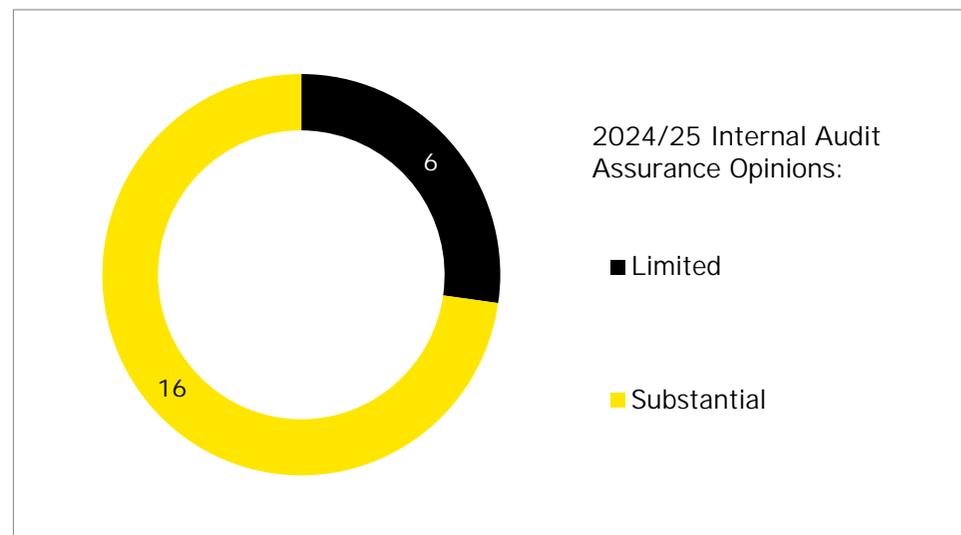
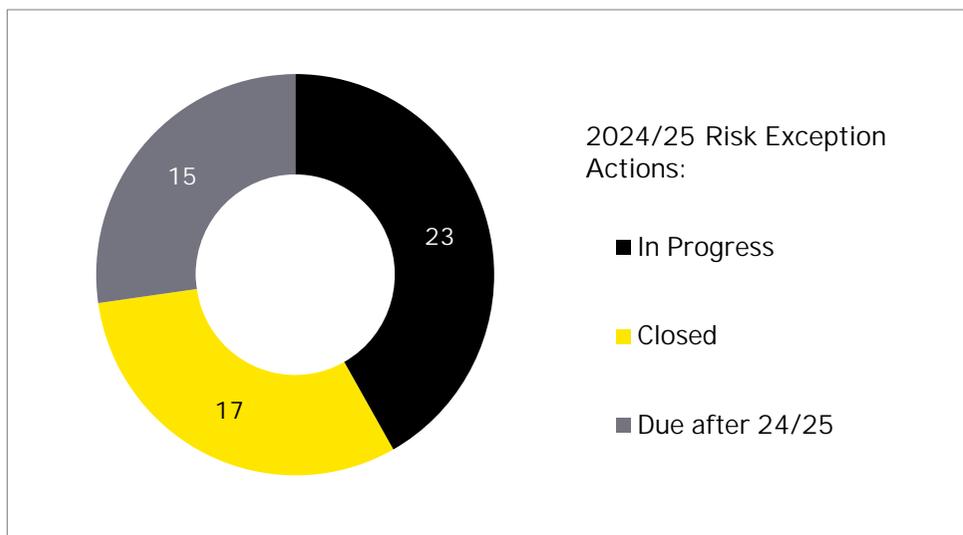
Internal audit arrangements

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

Internal Audit progress reports are monitored regularly throughout the year. The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error.

The internal audit opinion for 2024/25 was substantial assurance. During 24/25 there were six audit assignments that concluded with a 'Limited' assurance level in 2024/25, actions have been taken to manage the risks which has been included in the 2024/25 internal audit report. Some of the actions include strengthening process, improving record keeping and adding new resource to help to address some of the monitoring. We have reviewed each of the limited assurance conclusions issued and note that we have not identified any significant risks in relation to our value for money conclusion. Substantial assurance was given on the effectiveness of the council's risk management, control and governance processes which enables the council to meet its aims and objectives. No significant weaknesses were identified that would materially impact the Council's ability to deliver its objectives.

Exhibit F: Internal audit's follow up of recommendations noted that 17 were completed and 23 in progress of the 55 total actions.





Governance considerations

Informed decision making and member challenge

Test Valley Borough Council has a number of arrangements in place to ensure that appropriate decisions are made. The Council's Constitution records and regulates decision-making processes and the role of elected members and officers. The Constitution contains a detailed explanation of roles and responsibilities of each committee which in turn lead to effective working of the Council.

The Monitoring Officer and Head of Finance and Revenues (s151 Officer) maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings. Any key decisions due to be made should be published 28 days prior, to enable wider transparency and opportunities for representation to the decision makers.

Within the Financial Procedure Rules of the Council there are procedures in place to ensure the body has effective processes and systems to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed.

The Council rules allow public participation at Council meetings except where personal or confidential matters are disclosed (exempt information). The Audit Committee are responsible for providing independent assurance on the adequacy of the risk management and internal control frameworks and oversees financial reporting and annual governance processes as well as overseeing internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.



Governance considerations

Local Government Reorganisation

Local Government Reorganisation is expected to pose challenges for local authorities over the next year. During this period of change, the Council must maintain essential services and fulfill statutory duties. According to MHCLG guidance issued in July 2025, decisions made by the Council prior to reorganisation regarding ongoing service delivery and the medium-term financial strategy should focus on providing value for money for taxpayers and avoid limiting future decisions or sustainability of new councils.

The government has stated that it will issue directions under section 24 of the 2007 Act after Structural Changes Orders are made, specifying a person authorized to give consent on relevant matters and outlining how this authority should be exercised. MHCLG has noted these directions will follow previous precedents, requiring written consent from the successor council for land disposals and contracts exceeding a specified value.

To comply with MHCLG guidance and forthcoming directions, councillors and statutory officers need to be aware of their responsibilities and ensure that appropriate accounting and governance systems are maintained.

Failure to Prevent Fraud legislation

The offence of failing to prevent fraud, as introduced by the Economic Crime and Corporate Transparency Act 2023, became effective on 1 September 2025. The Home Office has published statutory guidance (most recently updated in October 2025) which organisations must consider. This guidance outlines the core principles for establishing, reviewing, or enhancing anti-fraud procedures.

Test Valley Borough Council have reviewed the new legislation at a Statutory Officers meeting in September and agreed to take an action to review the implications of the Act. The outcome of the work is that the Council believe the existing anti-fraud policies and controls do not need any immediate revision. The work programme of the Internal Audit team is risk-based and there are other policies in place, such as the whistleblowing policy to encourage employees to report any suspected fraud. The Council is confident that they have reasonable procedures in place to prevent fraud. Test Valley Borough Council will include any appropriate references to the new legislation when the policy is next reviewed.



VFM commentary: Improving economy, efficiency and effectiveness

Improving economy, efficiency and effectiveness: Our audit procedures

Our audit procedures include:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the body evaluates the service it provides to assess performance and identify areas for improvement;
- How the body ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess where it is meeting its objectives; and
- Where the body commissions or procures services, how it assesses whether it is realising the expected benefits.

Significant risks identified during planning procedures

Within our Audit Planning Report, we identified no risks of a significant weakness in the Council's arrangements for improving economy, efficiency and effectiveness. The Council's underlying arrangements in relation to improving economy, efficiency and effectiveness are not significantly different in 2024/25.

Overview of our conclusions

Based on the work performed, the Council had proper arrangements in place in 2024/25 in how it uses information about its costs and performance to improve the way it manages and delivers its services.

We noted one recommendation around partnership working:

Recommendation

- The Council should implement a more robust framework for monitoring partnership arrangements. This includes implementing a structured process to track project milestones and financial commitments, enabling timely accruals for additions.



Improving economy, efficiency and effectiveness considerations

Financial and performance information

Test Valley Borough Council uses financial and performance information within its corporate performance framework to monitor progress against strategic objectives and identify areas for improvement. Regular reporting of key performance indicators, budget monitoring, and Authority Monitoring Reports provide insight into service delivery and resource use. This data is reviewed by Cabinet, Scrutiny, and through external assurance processes such as peer reviews and audits, enabling the Council to highlight underperformance, assess value for money, and implement corrective actions to drive continuous improvement.

The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists. Regular meetings are held with the Head of Finance and Revenues to review the current financial position as reported by business partners. This is backed up by the budget monitoring updates to the Cabinet on a quarterly basis, where any unplanned changes in demand from their budget meetings with service managers are picked up and any appropriate revision to the budget is added in.

Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to see the effect. Throughout the preparation of each of these, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be. Monitoring of the budget through the year then identifies emerging trends and risks, and these are taken into account in the subsequent budget setting identifying pressures and changes since the prior budget setting or update reports.

The Council uses community consultations to evaluate service impact and shape priorities. This ensures services are responsive to local needs and supports a culture of co-design and accountability.



Improving economy, efficiency and effectiveness considerations

Partnership working

Test Valley Borough Council works collaboratively with a range of strategic partners to deliver its Corporate Plan objectives, focusing on economic growth, community wellbeing, and environmental sustainability. Key partnerships include the Test Valley Partnership, which addresses community safety and quality of life.

Test Valley Borough Council works closely with Hampshire County Council to deliver shared priorities and improve outcomes for residents. This partnership supports major initiatives such as transport infrastructure improvements, active travel schemes, and sustainable development projects, including the Local Cycling and Walking Infrastructure Plan and multi-million-pound transport upgrades. Collaborative planning ensures alignment between borough and county strategies, helping the Council achieve its objectives for thriving communities, environmental sustainability, and economic growth.

During our review of additions in the Financial Statements audit, we noted that there was insufficient regular monitoring of progress on the addition being delivered in partnership with Hampshire County Council, which resulted in delays in identifying financial commitments. Strengthening oversight and implementing structured progress reviews would help ensure timely and accurate accruals in future.

Recommendation 2

- The Council should implement a more robust framework for monitoring partnership arrangements. This includes implementing a structured process to track project milestones and financial commitments, enabling timely accruals for additions.

Procurement and commissioning of services

Test Valley Borough Council operates its procurement and commissioning activities under a formal Procurement Strategy and Contract Standing Orders, designed to ensure transparency, compliance with the Procurement Act 2023, and delivery of value for money. The Council uses competitive processes, including eTendering systems and frameworks, to source goods, services, and works. Clear governance arrangements, flowcharts, and checklists support officers in selecting appropriate procedures based on contract value and complexity. Commissioning decisions are aligned with the Council's corporate priorities and emphasize accountability, sustainability, and effective contract monitoring to achieve best outcomes for the community.

One of the limited assurance opinions from the 2024/25 internal audit programme was related to procurement. The audit identified some inconsistency in the completion and secure retention of contracts. Actions were agreed with management to strengthen processes around the monitoring of cumulative spend when valuing contracts and more proactive contract management in the recording and monitoring of contracts and their expiry. A new post has since been established to support this work and introduce some more robust compliance monitoring and procurement training has been arranged for senior managers in June 2025.



04 Appendices

Appendix A – Recommendations from current year

Recommendations from 2024/25

The table below sets out the recommendations arising from the value for money work for the year 2024/25. All recommendations have been shared with management.

Issue	Recommendation	Management response
Governance	The Council should put the AGS on the same page of their website as the draft financial statements, and/or ensure it is a separately searchable document, in future years, for ease of access and to comply explicitly with the Accounts and Audit Regulations 2015	The 2024/25 AGS is now published on the same page as the accounts. Arrangements have been put in place to ensure that future financial statements and AGS are published on the same webpage.
Improving economy, efficiency and effectiveness	The Council should implement a more robust framework for monitoring partnership arrangements. This includes implementing a structured process to track project milestones and financial commitments, enabling timely accruals for additions.	The item raised in the 2024/25 audit is considered to be an exception with existing controls adequately identifying additions. Year end procedures will be reviewed to ensure that items are brought into the financial statements at the appropriate time.

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