

Test Valley Borough Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





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The Members
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October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 annual results report to the 30 September 2015 General Purposes Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours sincerely

Kate Handy
Director
For and on behalf of Ernst & Young LLP
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’ (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission’s website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's AGS;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of Test Valley Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 30/09/15 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 30/09/15 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 30/09/15. There were no issues to report.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.
<i>As a result of the above we have also:</i>	
Issued a report to those charged with governance of the Council with the significant findings from	Our Audit Results Report was presented to the General Purposes Committee on

our audit.

30/09/15.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 30/09/15.

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

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

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 30 September 2015.

Our detailed findings were reported to the 30 September General Purposes Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of management override of controls

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

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for any significant unusual transactions.

Findings From the work carried out we found no evidence of management override of controls.

Other financial statement risk 1: Changes to the accounts preparation team

Description The established financial statements preparing officer was not in post for the 2014/15 financial statements preparation and audit process. Any changes to the preparing team, particularly the loss of an experienced and highly knowledgeable individual, creates a risk that the Council may not be able to deliver a set of financial statements to the high standards that have been delivered in prior years.

The Council originally planned to procure the services of a contract accountant to prepare the accounts but decided to fill the gap by establishing an in-house team.

Our approach focused on:

- assessing the Council's new arrangements for producing the financial statements and responding to the risk accordingly;
- assessing the Council's contingency arrangements; and
- obtaining the closedown plan and monitoring progress against it between interim and final visit

Findings The draft financial statements delivered for audit were of a high standard and show that the alternative arrangements the Council put in place were successful.

Other financial statement risk 2: potential changes to asset valuations

Description The Council changed its valuation arrangements for 2014/15. Investment properties continue to be valued by the Council's in-house RICS valuer but all other land, buildings and infrastructure assets have been subject to external valuation. Any change in

valuer creates an inherent risk of material changes in asset valuations and potential inconsistencies in the valuation methodology applied.

Our approach focused on:

- assessing the qualifications and gaining direct representation from the new valuer regarding his valuation methodology;
- examining material year-on-year differences in asset values and obtaining explanations for the variances; and
- substantively testing material valuations for compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 valuation methodology.

Findings The external valuer was suitably qualified and used an appropriate valuation basis. The resultant valuations were materially in line with our expectations and our testing did not identify any errors.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

Our audit did not identify any significant matters we needed to report and we issued an unqualified value for money conclusion on 30 September 2015.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the General Purposes Committee on 30 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

Description	Impact
<p>The DCLG is bringing forward the date of preparation of the financial statements from 2017/18.</p>	<p>This will result in earlier production of the statements and will be a significant challenge that the Council will need to prepare for in advance, reviewing the key tasks and assessing the extent that processes may need changing to reduce the production time.</p>
<p>Highways Network Asset (formerly Transport Infrastructure Assets): The Invitation to Comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost instead of the existing Depreciated Historic Cost. This is to be effective from 1 April 2016. This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p>	<p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures. Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities. The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> • Footways • Unadopted roads on industrial estates • Cycleways • Street Furniture

5. Fees

Our fee for 2014/15 is in line with the scale fee set by the Audit Commission and reported in our March 2015 Audit Plan.

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15
Total Audit Fee – Code work	£70,440	£70,440	£70,440
Total Audit Fee – Certification of claims and returns*	£16,750	£16,750	£16,750

Our actual fee is in line with the agreed fee.

*Our fee for certification of claims and returns is yet to be finalised for 2014/15 and will be reported to those charged with governance in early 2016 within the Annual Certification Report for 2014/15.

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