

Annual Audit Letter

Test Valley Borough Council

Year ending 31 March 2014

30 October 2014

Ernst & Young LLP



Building a better
working world



Ernst & Young LLP
Wessex House
19 Threefield Land
Southampton
SO14 3QB

Tel: +44 23 8038 2000
Fax: +44 23 8038 2001
ey.com

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

30 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Test Valley Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Test Valley Borough Council in the following reports:

2013/14 Audit results report for Test Valley
Borough Council

Issued 17 September and presented to the
Governance (General Purposes) Committee on
24 September 2014

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Test Valley Borough Council for their assistance during the course of our work.

Yours faithfully

Kate Handy
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

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

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

This 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 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued in March 2014 and is 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 Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Reviewing the Annual Governance Statement;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Test Valley Borough Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 26 September 2014 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 26 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the General Purposes Committee) communicating significant findings resulting from our audit.	On 17 September 2014 we issued our report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 26 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA/SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.

Issue 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.

On 26 September 2014 we issued our audit completion certificate.

Issue a report to those charged with governance summarising the certification (of grants, claims and returns) work that we have undertaken.

We will issue our annual certification report to those charged with governance with respect to the 2013/14 financial year when grant certification work has been completed (December 2014).

2. Key findings

2.1 Financial statement audit

We audited the Authority'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. We issued an unqualified audit report on 26 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was, as with previous years, very good. Furthermore, we carried out our audit during September, which is very close to the statutory deadline, and we would like to thank the Finance team for its professionalism and flexibility in what was a time pressured scenario.

The main issues identified as part of our audit were:

Significant risk 1: NNDR appeals provision

Issue:

- ▶ The previous business rates (national non domestic rates – NNDR) system was based on receipts and payments accounting rather than accrual accounting. However, on transfer to the new business rates scheme full accrual accounting was introduced. One of the consequences of this is that billing authorities are now required to calculate a provision in respect of valuation appeals that have yet to be decided at the year end.
- ▶ Previously, the impact of these appeals was not recognised until the appeal had been settled so there was no accrued or brought forward liability in the financial statements. However, under the new scheme any outstanding appeals at 31 March 2013 that had not previously been provided for became a liability of the billing authority's Collection Fund on transition.
- ▶ This provision was stated in our Audit Plan of March 2014 as an 'other' risk. However, because the provision affects all primary financial statements and there is a potential risk for material error at all billing authorities, the risk was upgraded to 'significant'. We do not consider the risk at Test Valley BC to be any higher than any other similar local government body.

Audit finding:

- ▶ We found that the business rates appeal provision was reasonable, adequately evidenced and prepared in accordance with the accounting standard 'IAS 37 – Provisions, Contingent Liabilities and Contingent Assets'.
-

Significant risk 2: Risk of management override

Issue:

- ▶ As identified in ISA (UK & 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. We identify and respond to this fraud risk on every audit engagement.
- ▶ This risk is inherent to all local government bodies and we do not consider the risk to be any greater at Test Valley Borough Council than at any other district council.

Audit finding:

- ▶ From the work performed, we found no indication of management override in the 2013/14 financial statements.
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Other key findings:

- ▶ **Changes to internal audit** – The audit approach dictates that we gain as much assurance as possible from the work of internal audit. Inability to rely upon it could have a potential negative impact on the audit fee because the scale fee depends upon the council having in place an effective internal control environment, of which internal audit is an integral part.
 - ▶ Historically we have not sought to rely too heavily on the work of internal audit at Test Valley but, ongoing, we plan to do so to make the audit process more efficient. Changes in the arrangements for internal audit provision in 2013/14 therefore need to be assessed for strength and reliability to ensure ongoing assurance.
 - ▶ We concluded that the work of internal audit can be relied upon for our ongoing assurance. We have shared our work plan and hope to place as much reliance as possible on its work in future.
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- ▶ **Audit errors** – We identified one creditor balance for 191k that could not be verified within the draft financial statements. We reported this to you in our Audit Results Report as an ‘uncorrected’ error. Management will review and clear this balance during 2014/15.
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- ▶ **Post balance sheet event** – The disposal of the Duttons Road site in Romsey was approved by the Council during 2013/14 and this was reflected in the financial statements. However, the value of the disposal depended upon the granting of planning permission, which was granted on 15 September, 2014. As such, a material event that arose after the end of the reporting period required reporting as a disclosure under the accounting standard ‘IAS 10 Events after the Reporting Period’. Under the same standard, the primary financial statements did not require adjustment but a new disclosure note was added to the accounts.
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2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 26 September 2014.

2.3 Objections received

We received no objections to the 2013/14 accounts from members of the public.

2.4 Whole of government accounts

We reported to the National Audit office on 26 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority’s Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA/SOLACE guidance. We completed this work and did not identify any areas of concern.

2.6 Certification of grants claims and returns

We certify one claim worth £29.5mn (Housing Benefits). However, the departmental deadline for this claim is 30 November 2014 and we plan to report our Annual Certification Report for 2013/14 to those charged with governance in December 2014.

3. Control themes and observations

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 communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

We identified no deficiencies of sufficient importance to merit being reported to you.

4. Audit fees

A breakdown of our agreed fee is shown below.

	Final fee 2013/14 £s	Planned fee 2013/14 £s	Scale fee 2013/14 £s	Explanation of variance
Total Audit Fee – Code work	69,540	69,540	69,540	n/a
Certification of claims and returns*	12,056	12,056	12,056	n/a

* Note that our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in December 2014 within the Annual Certification Report for 2013/14.

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

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