

Test Valley Borough Council

General Purposes Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



Building a better
working world

Contents

		Page
Section 1	Executive summary	2
Section 2	Extent and purpose of our work	4
Section 3	Addressing audit risks	6
Section 4	Financial statements audit – issues and findings	9
Section 5	Arrangements to secure economy, efficiency and effectiveness	13
Section 6	Independence and audit fees	15
 Appendices		
Appendix A	Corrected audit misstatements	18

Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the General Purposes Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 15 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly 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 Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them
 - ▶ Report on an exception basis on the Annual Governance Statement
 - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council..

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity’s controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant risk 1: Risk of management override of controls</p> <p>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.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • 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. 	<p>From the work carried out we found no evidence of management override of controls.</p>

Addressing audit risks – other audit risks

- We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p>Other audit risks</p> <p>Other financial statement risk 1: Changes to the accounts preparation team. The established financial statements preparing officer will no longer be 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 has now decided to fill the gap by establishing an in-house team.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • 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 	<p>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</p>
<p>Other financial statement risk 2: potential changes to asset valuations . 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.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • assessing the qualifications and gaining direct representation from the new valuer regarding his/her methodology; • examining material year-on-year differences and obtaining explanations for the variances; and • substantively testing material valuations for compliance with Code valuation methodology. 	<p>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.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the General Purposes Committee meeting:
 - ▶ Receipt of a Letter of Representation
 - ▶ Representation from those charged with governance over internal control and knowledge of fraud
 - ▶ Completion of income testing
 - ▶ There are a number of disclosure notes that still require audit testing i.e. leases and financial instruments
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ We have identified no misstatements within the draft financial statements, which management has chosen not to adjust.

Corrected misstatements

- ▶ Our audit identified a low number of misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix B.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest

We wish to report the following:

- ▶ The payables balance on the balance sheet includes £177k of cheques dating back to 2004. Whilst these may remain true liabilities of the council, the balance should be reviewed and cheques written off as necessary; and
- ▶ We identified one material disclosure error where Interest on the pension fund asset of £3.26m was in the incorrect section of the comprehensive income and expenditure statement (CIES). Management has corrected this error and it has no impact on the 'bottom line' of the statement, or the council's reserve position.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable error</p>	<p>We determined planning materiality to be £1.45 million (2014: £1.36 million), which is 2% of gross operating expenditure reported in the accounts of £72.3 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant or material errors in the Council's 2013/14 financial statements and no significant uncorrected errors.</p>
<p>Reporting Threshold</p>	<p>We reported to you all corrected misstatements in excess of £1.085 million (2014: £1.015 million), and all uncorrected errors over £72k.</p>

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ 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.
- ▶ We walked through systems to confirm our understanding of the overall control environment. We have not tested the controls as we believe a fully substantive approach to be the most efficient for your audit. We are therefore not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

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 are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters that arise to the General Purposes Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Test Valley Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- We did not identify any significant risks in relation to this criteria and we have no issues to report in relation to this criteria.
- The outturn for 2014/15 was £1.2m better than expected, enabling the Council to increase its reserves. We have noted that the Council is predicting a cumulative budget gap of around £1.5m at the end of 2017/18. Current plans are to bridge this with a combination of New Homes Bonus contributions and, as yet, unidentified efficiencies and/or contributions. However, we also note that the Council has already set aside over £4m of New Homes Bonus to reserves and has almost £20m of usable reserves (excluding the £32m Capital Receipts Reserve), so it is in a relatively good financial shape in the short to medium-term. However, uncertainty over future finances in local government means that the Council must continue to work hard to achieve its annual budgets, as well as respond to any changes in the funding streams it receives.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criteria and have no issues to report in relation to this criteria.
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 16 March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the General Purposes Committee on 30 September 2015.

- ▶ We confirm that we have met the reporting requirements to the General Purposes Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 16 March 2015.

Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	70,440	70,440	
Certification of claims and returns	16,750	16,750	
Non-Audit work	0	0	

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

Appendices

Appendix A – corrected audit misstatements

- ▶ The following corrected misstatements, greater than £1.085mn have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J,	Debit/(credit)	Debit/(credit)
1. Collection Fund	The full provision for NDR appeals has been charged to collection fund income rather than just the 2014/15 element.	F	-	NDR income 3,635k NDR appeal provision (3,635k)
Cumulative effect of uncorrected misstatement	This adjustment has no effect on the 'bottom line' position of the council.		0	0

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

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ED None

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

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