

## Supplementary Information

HAVANT BOROUGH COUNCIL  
GOVERNANCE, AUDIT AND FINANCE BOARD  
25 July 2018

Dear Councillor

I am now able to enclose, for consideration at next 25 July 2018 meeting of the Governance, Audit and Finance Board, the following supplementary information that was unavailable when the agenda was printed.

<b>Agenda No</b>	<b>Item</b>	
<b>9</b>	<b>External Audit Results Report 2017/18 and Audit Committee Briefing</b>	<b>1 - 56</b>

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**NON EXEMPT**

## **HAVANT BOROUGH COUNCIL**

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**Governance, Audit and Finance Board**

**25<sup>th</sup> July 2018**

**ANNUAL AUDIT RESULTS REPORT 2017/18**

**Chief Finance Officer**

**FOR INFORMATION**

**Portfolio: Portfolio Holder for Finance  
Cllr Pike**

**Key Decision: No**

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### **1.0 Purpose of Report**

- 1.1. This report is submitted to the Governance and Finance Board to present the Audit Results Report for the year ending 31<sup>st</sup> March 2018.

### **2.0 Recommendation**

- 2.1. That the Committee note the report.

### **3.0 Executive Summary**

- 3.1. The Audit Results Report presents the outcome of the Audit of the Statement of Accounts and the Value for Money conclusion for the financial year ending 31<sup>st</sup> March 2018.

### **4.0 Background**

- 4.1. In March 2018 the Governance and Audit Committee approved the scope and approach for the audit of the financial statements. The draft audit results report is attached.

### **5.0 Resource Implications**

- 5.1. Financial Implications - None
- 5.2. Human Resources Implications – None

## **6.0 Legal Implications**

- 6.1. The Annual Audit Report and Statutory Accounts are required to be noted and agreed no later than the 31<sup>st</sup> July 2018, if this requirement is not met then the Council will have failed to meet its statutory obligations to publish audited accounts by that date.

## **7.0 Communication**

- 7.1. The Annual Audit Report and Statutory Accounts will be made publicly available on the Council's website

Agreed and signed off by:

Monitoring Officer: 23.07.18

S151 Officer: 23.07.2018

Portfolio Holder: 23.07.18

**Contact Officer:** Lydia Morrison  
**Job Title:** Chief Finance Officer  
**Telephone:** 02392 446501  
**E-Mail:** Lydia.Morrison@Havant.gov.uk

Havant Borough Council  
Audit results report

Year ended 31 March 2018

20 July 2018



Private and Confidential

20 July 2018

Dear Governance, Audit and Finance Board Members

We are pleased to attach our audit results report for the forthcoming meeting of the Governance, Audit and Finance Board. This report summarises our preliminary audit conclusion in relation to the audit of Havant Borough Council for 2017/8.

We have substantially completed our audit of Havant Borough Council for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Governance, Audit and Finance Board, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Governance, Audit and Finance Board meeting on 25 July 2018.

Yours faithfully

Andrew Brittain

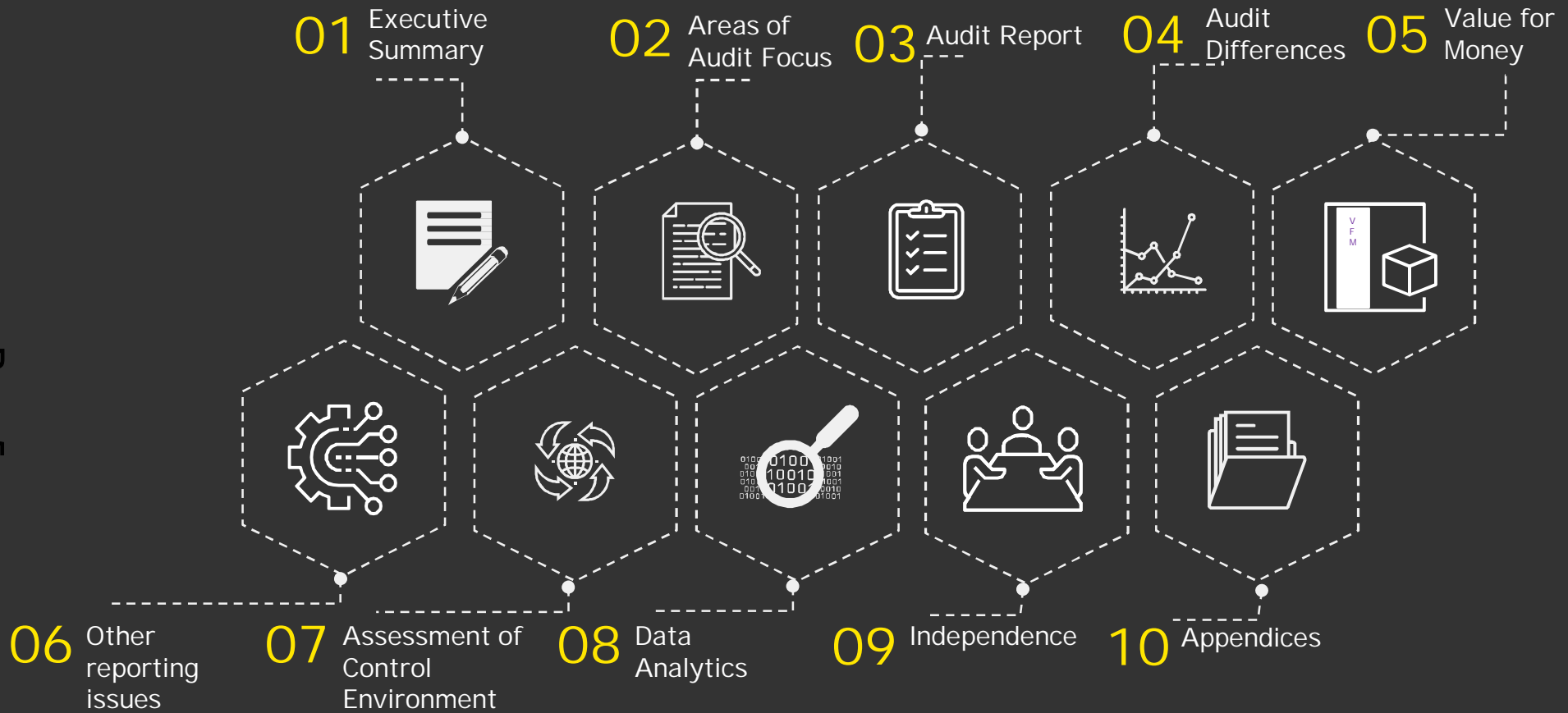
Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). 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 (updated February 2017)" 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 Governance, Audit and Finance Board and management of Havant Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance, Audit and Finance Board and management of Havant 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 Governance, Audit and Finance Board and management of Havant Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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# Executive Summary





# Executive Summary

## Scope update

In our Audit Planning Report tabled at the 14 March 2018 Governance and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Changes in materiality. In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.443m. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of group gross revenue expenditure, we have updated our overall materiality assessment to £1.252m. This results in updated performance materiality, at 75% of overall materiality, of £0.939m, and an updated threshold for reporting misstatements of £0.063m.

## Status of the audit

We have substantially completed our audit of Havant Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding matters we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Testing and review of PPE valuation, Investment Properties, Creditors, Debtors, Provisions, Payroll, various categories of income and expenditure and group reporting. These areas are in progress, but the impact of faster close for 2017/18 means that at the date of writing this report we are only part way through the planned audit visit.
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

# Executive Summary

## Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We agree with management's assessment that the impact is not material and ask that if these are not adjusted a rationale as to why be approved by the Governance, Audit and Finance Board and included in the Letter of Representation. The aggregated impact of unadjusted audit difference is £500k. Further details are disclosed in section 4.

We have also identified audit differences which management are in the process of adjusting. We also identified some audit differences in disclosures and casting and cross casting errors which have been adjusted by management. Details can be found in Section 4 Audit Differences.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Havant Borough Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance, Audit and Finance Board.

## Control observations

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 and which is unknown to you.



# Executive Summary

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified significant risks in respect of financial resilience and partnership working.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Details can be found in Section 5 Value for Money

## Other reporting issues

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

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

## Independence

We have no matters to highlight on Independence.



# 02 Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue and expenditure recognition



#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. With the wider pressure on finances within the sector, we are no longer able to rebut this presumption.

The risks we have identified are most focused around those items of income and expenditure which are non-routine and involve more management estimation and judgment such as year-end income and expenditure accruals, provisions and asset valuations.

#### What judgements are we focused on?

We are focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates;
  - Considering whether or not purchase invoices were being inappropriately classified as capital; and
  - Whether management were inappropriately processing journals that transferred amounts from revenue to capital

#### What did we do?

- Reviewed and tested revenue and expenditure recognition policies;
- Reviewed and discussed with management any accounting estimates on revenue and expenditure recognition for evidence of bias;
- Developed a testing strategy to test the completeness and valuation of expenditure accruals for material expenditure streams;
- Developed a testing strategy to test the existence and valuation of income accruals for material revenue streams;
- Reviewed in-year financial projections and compare to year-end position; and
- Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

#### What are our conclusions?

Based on the work completed at the time of drafting this report:

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.



# Areas of Audit Focus

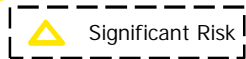
## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

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

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



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#### What judgements are we focused on?

We focused on the following:

- Understanding the risks of fraud and the controls put in place to address those risks by management and how the Governance and Audit Committee oversees management's processes over fraud;
- Considering the effectiveness of management's controls designed to address the risk of fraud;
- Determining an appropriate strategy to address those identified risks of fraud; and
- Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

#### What did we do?

- Wrote to the s151 officer, Chair of the Governance and Audit Committee, Head of Internal Audit and Monitoring Officer in this regard and reviewed their responses;
- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for any significant unusual transactions.

#### What are our conclusions?

Based on the work completed at the time of drafting this report:

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business



# Areas of Audit Focus

## Other financial statement risk

### Valuation of land and buildings

#### What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Furthermore, the Council is also undertaking significant redevelopment work on its Leisure Centres and would need to consider specifically the accounting implications thereof in terms of impairment/valuation

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#### What judgements are we focused on?

- We focused on the following:
- The adequacy of the scope of the work performed by the valuer including their professional capabilities; and
  - The reasonableness of the underlying assumptions used by the Council's expert valuer.

#### What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Challenged the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Reviewed assets not subject to valuation in 2017/18 and confirmed that the remaining asset base was not materially misstated;
- Sample tested key asset information used by the valuers in performing their valuation;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

#### What are our conclusions?

Our work in this complex area is still in progress as at the date of writing this report. Based on the work completed to date:

We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.

We have reviewed the classification and valuation methods used and identified no issues.

Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.



## Areas of Audit Focus

# Other financial statement risk

### Pension Liability valuation

#### What is the risk?

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £50.262m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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#### What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert – AON Hewitt;
- Ensuring the information supplied to the actuary in relation to Havant Borough Council was complete and accurate; and
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from AON Hewitt.

#### What did we do?

- Liaised with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Havant Borough Council;
- Assessed the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19

#### What are our conclusions?

We obtained assurances from the auditors of Hampshire County Council Pension Fund that the information supplied to the actuary in relation to Havant Borough Council was accurate and complete.

We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: AON Hewitt. EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.

Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

We have one finding from our review of available outturn information. For timing reasons, the actuary estimates before year end, the value of the pension fund assets at 31 March. This varied by approximately £31m from the actual fund value as at 31 March. Havant's estimated share of this variance is £500k, which is not material but above our threshold to report to you.





## Areas of Audit Focus

# Other financial statement risk

### Capacity of the Finance Team and faster close

#### What is the risk?

As part of the Council's implementation of the new corporate services contract the finance team has now transferred over to Capita. Furthermore, key staff members of the finance team have left the Council and there has been a high turnover of interim S151 officers. This presents a risk in the Council's ability to deliver the financial statements in line with the accelerated timetable due to delays in responding to audit queries and the potential impact on the quality of financial information presented for audit.

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in the format and time required, late working papers, internal quality assurance arrangements and changes to finance team.

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#### What did we do?

- Monitored the quality and accuracy of the financial statements and supporting working papers that were presented for audit;
- Held regular discussions with key officers to ensure that any delays were communicated at an early stage;
- Worked with the Council to engage early to facilitate early substantive testing;
- Facilitated faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year;
- Worked with the Council to implement EY Client Portal to:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on-demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data

#### What are our conclusions?

The Council submitted draft statements on 31 May 2018 in line with the accelerated deadline.

This is an achievement as it was the first time Capita was producing the accounts for the Council. However, the accuracy of the financial statements and the supporting working papers was not as consistent as in prior years and there were many casting and cross casting errors and internal inconsistencies.

Finance staff were also not able to respond as promptly as in the past. There were some turnover of key staff within both the Council and the Capita Finance Team which impacted the ability of the team to respond to some queries.



## Areas of Audit Focus



### Other matters

#### Assessment of new Accounting Standards

- IFRS 9 Financial Instruments: The 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom introduces IFRS 9 on financial instruments. Your assessment is that there is current uncertainty on the impact of IFRS9 and the resulting accounting transactions and that this is likely to be informed by a potential statutory override and cannot currently assess the impact on the authority's financial statements. We agree with Council's assessment.
- IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code determines how IFRS 15 Revenue from Contracts with Customers will be adopted by local government bodies. In your view IFRS 15 will not have a material impact on this Council's single entity financial statements as the Council does not have any material revenue streams within the scope of the new standard. We agree with Council's assessment.



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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

##### Opinion

We have audited the financial statements of Havant Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Notes 1 to 42 to the Council Accounts and the Expenditure and Funding Analysis,
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Havant Borough Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Annual Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



# Audit Report

## Our opinion on the financial statements

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Havant Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages [...], the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

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



# Audit Report

## Our opinion on the financial statements

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Certificate

We certify that we have completed the audit of the accounts of Havant Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### Use of our report

This report is made solely to the members of Havant Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Brittain (Key Audit Partner)  
Ernst & Young LLP (Local Auditor), Southampton  
31 July 2018



# 04 Audit Differences



# Audit Differences

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

## Summary of adjusted differences

We highlight the following misstatements greater than £0.063mn which have been corrected by management that were identified during the course of our audit. The Finance team have agreed to make these adjustments. We will confirm that the adjustments have been made appropriately when we review the final set of accounts:

- £2,334k misclassification between income credited to Cost of Services and Taxation and Non Specific Grant Income. Community Infrastructure Levy (CIL) income was credited to services but CIL charges are capital contributions and although restricted to infrastructure it is not a revenue service cost
- £199k overstatement of Debtors. An income accrual was unwound from income but the balance sheet was not adjusted and still shows a balance of £199k.
- Misclassification between Long Term Debtors and Short Term Debtors in relation to CIL income. This related to 18/19, therefore should be classified as short term
- Note 19 - Business Rates Appeals Provision did not take into account potential appeals and threats in relation to the 2017 ratings list. Management is in the process of calculating the potential understatement of their Business Rates Appeals Provision

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Numerous misstatements, both material and immaterial, identified within note 30 - Grant Income: Credited to Services. Figures were transferred incorrectly from the supporting working papers to the accounts.

## Summary of unadjusted differences

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

	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	CIES
	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period
Uncorrected misstatements					
Known differences:					
▶ The fair value for pension assets was estimated at the time that the estimated pension fund liability was calculated. The actual outturn at year-end differed to the estimated figure				500k	(500k)
Total				500k	(500k)

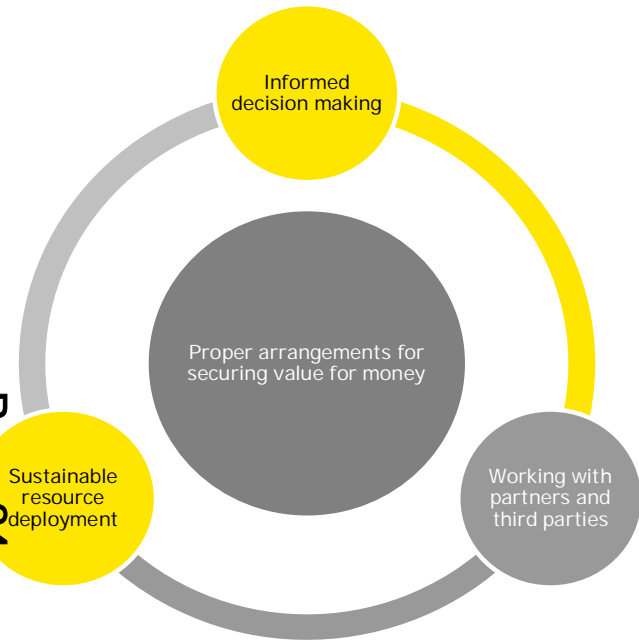




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# Value for Money Risks





## Background

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. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- § Take informed decisions;
- § Deploy resources in a sustainable manner; and
- § Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Financial Resilience and Assessment of the Authority's Reserve Position

As part of our assessment of your proper arrangements, we considered the Authority's financial resilience over the medium term and the impact on the level of General Fund Reserve balances at the 31 March 2018 and at 31 March 2021.

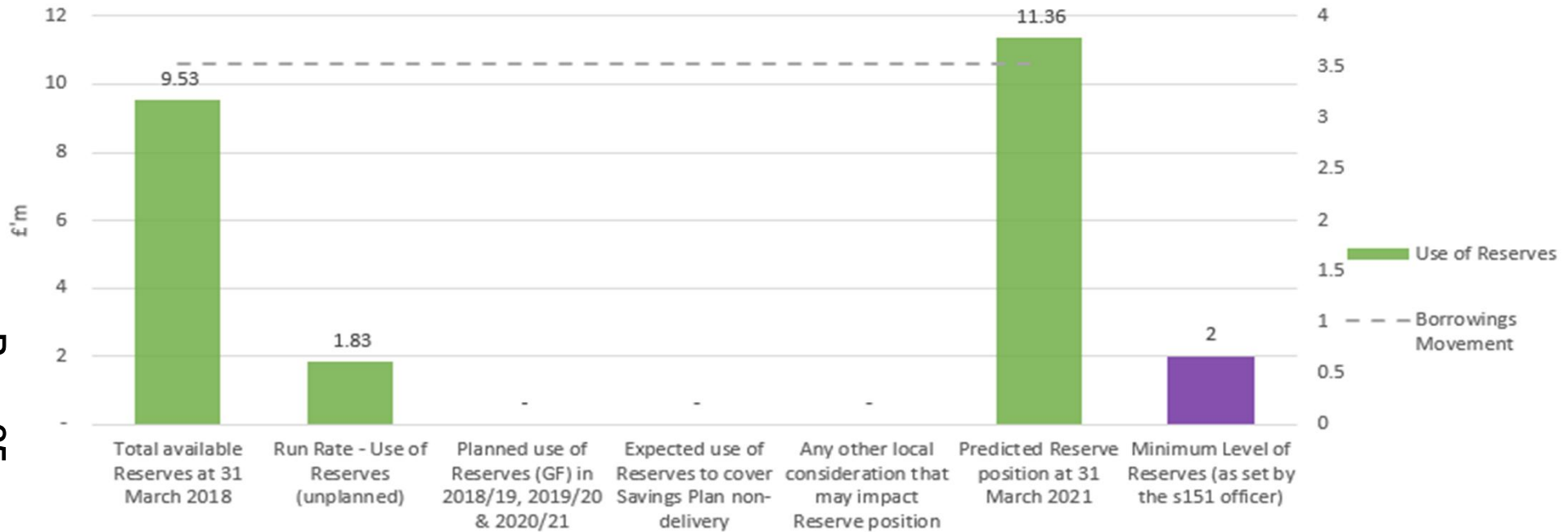
Our assessment of this is set out on the next page.

## Overall conclusion

We identified two significant risk around these arrangements. The tables below present our findings in response to the risks in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention

We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

## Assessment of Reserves Position to 2021



### Our Assessment

In our assessment we considered:

- The Authority's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Authority's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Authority's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Authority's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Authority's planned use of borrowing over the same time frame to inform our assessment. There are no plans to borrow to finance new capital expenditure over the medium term but this remains an option if deemed to be prudent.

As a result of our assessment, we are satisfied that the Authority's General Fund reserve balance at 31 March 2021 will remain above the Authority's approved minimum level.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risk areas in our Audit Planning Report.

### What is the significant value for money risk?

#### Financial sustainability

Like other local government bodies the Council continues to face financial challenges over the medium term. The 2017/18 has seen some unforeseen financial pressures and it is likely a deficit will be reported. The Council has set its 2018/19 budget in the context of a 2.99% increase in council tax. The Council expects to break even in 2018/19, the first year of the Medium Term Financial Strategy (MTFS) with a surplus in 2019/20 and 2020/21 of £219k and £170k respectively but then moves to a deficit position in 2021/22 and 2022/23 of £42k and £248k respectively. Income from commercial enterprises (£988k in 2018/19 rising to £1.26 million in 2022/23) and income from investments (£1.4 million each year over the five year period) are key to achieving the surplus position assumed in the MTFS period and if these targets are not met annually it could result in the Council reporting a deficit in-year or over the MTFS period. If assumptions and investment decisions are not appropriate, the Council may be exposed to increased financial risks, where a small decline in budgeted income from commercial enterprises or income from investments could result in the Council having to draw on its General Fund reserves, which is estimated to hold £2.559 million at the end of the MTFS.

Effective finance leadership is key to manage the medium term outlook and financial sustainability as the reliance on new income streams from commercial ventures increases over the life of the MTFS.

### What arrangements did the risk affect?

Deploy resources in a sustainable manner

### What are our findings?

We have reviewed the PSAA’s value for money profile tool and did not identify any areas of concern.

We have reviewed the Council’s outturn for 17/18 to assess the reasonableness of the assumptions, and reviewed the assumptions in the 18/19 budget and MTFS.

The Council reported a deficit of £7.6k in 17/18. Our review of the Council’s 2018/19 budget and MTFS identified that the assumptions used appear reasonable. The deficit included a number of one off costs as a consequence of the changes to the Capita contract. However, the reported deficit was an improvement on the forecast outturn.

We note that there are some expected updates to the MTFS following the resolution of the 5 Councils’ contract negotiations, however these have not yet been taken into account as renegotiations were still ongoing at the time of preparation. However, renegotiations have ensured that the Council still achieves its minimum target of 10% savings from the contract.



# Value for Money

## What is the significant value for money risk?

Partnership working - Implementation of the Corporate Services Contracts  
In 2016 the Council entered into agreements for Corporate Services Contracts with Capita (Lot 1) and Vinci (Lot 2), as part of the Five Councils Partnership arrangements.

These contracts started in 2017/18 at Havant Borough Council. These contracts were designed to generate savings of over £50m for the five Councils across their lifetime of nine years, however, the Councils are now in the process of renegotiating both Lot 1 and Lot 2 due to issues with the way the contracts were constructed and the implications for the practical implementation of them.

Given the likely significant changes to the two contracts there is a risk that both the services and financial performance of the Councils would be negatively impacted if renegotiation results in contracts that are difficult to implement or do not deliver the intended benefits.

## What arrangements did the risk affect?

Deploy resources in a sustainable manner/  
Work with partners and other third parties

## What are our findings?

The corporate services contracts remain an ongoing concern for the Council and commercial renegotiations around the lot 1 Capita contract have been underway throughout 17/18. We have reviewed the governance arrangements and implementation relating to the provision of all the services delivered by Capita. We have seen evidence that the Council has internal governance arrangements for the Contracts in place throughout the year through a series of joint arrangements with Havant Borough Council including regular Heads of Service meetings and a dedicated 5 Councils programme board.

The Inter Authority Agreement (IAA) between the five councils and the contracts with Capita and Vinci set out a number of key boards and committees to provide oversight. These arrangements have continued whilst renegotiations were taking place and to date although finalised, the new IAA has not been signed as the sharing of costs and savings are yet to be agreed. In terms of the new IAA the Joint Overview and Scrutiny Committee has been removed, with the Scrutiny function for the new Contract reverting to the individual Councils. The role, remit and responsibilities of the Client Relationship Director and Client Relationship Team have been set out more clearly. Changes in the staffing levels will be subject to Strategic Board approval. The financial mechanism has been reviewed and now includes principles for the allocation of costs which have been agreed by the Section 151 Officers of the Councils and the Strategic Board. The general principle is to ensure a fair and equitable sharing of costs, benefits and risks. There are mechanisms for (1) general dispute resolution and (2) where there is irreconcilable difference on cost apportionment. The process and consequences of exit from the new contract between the Councils will be set out in an exit plan to be prepared by the Client Relationship Director and will cover any residual claims, treatment of assets and liabilities and dealing with the staff in the client team.

We have seen evidence overall that there were regular meetings at an individual council level which addressed the key issues, especially with the renegotiations. Renegotiations as a result of issues identified with the contracts were actively discussed and resolved with the suppliers. While the original savings figure of £50 million across the 5 Councils was aspirational rather than fully quantified, it is apparent that the level of savings will not be as high as initially planned. From review of the latest renegotiations, the contract still meets the minimum percentage savings of 10% as set out in the negotiating strategy and delivers the intended level of provision. Implementation was still in the early stages and in some cases target operating models were not planned to be achieved as at this year-end. This will need to be closely monitored going forward.

A decision was taken by the 5 Councils to terminate the lot 2 Vinci contract with Havant Borough Council's share of the termination cost being £481k, although this is still under negotiation. There was no impact on Havant Borough Council services as they had not yet reached implementation stage.

For the 2017/18 VfM conclusion, we have taken into account that the Councils have prudently only included savings related to the core transaction processing elements of the Capita contract in their MTFs, and that the 5 Councils Partnership is still budgeted to generate savings for the Councils over the lifetime of the contract.



# 06 Other reporting issues



## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

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

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

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

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area, but anticipate having no matters to report as the Council is below the £500m threshold for undertaking detailed audit procedures.

## Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

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

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



## Other reporting issues

### Other matters (continued)

We have one other matter to report:

- NDR Appeals Provision

*Observation:* The Council is required to account for NDR on a full accrual basis. This requires authorities to consider establishing a provision under IAS 37 in respect of the potential adverse impact of successful appeals against valuations. It is management responsibility to establish reliable processes for preparing this accounting estimate. The Council did not initially consider the likely loss from potential appeals relating to the 2017 VO listing due to limited data of successful appeals being available from the VOA. Therefore, there is a risk that the NDR Appeals Provision could be materially understated. At the time of writing our report, the Council was in the process of performing this assessment after our initial queries.

*Recommendation:* Professional judgement and experience is required to determine the success rate of appeals made and the impact that these have on Rateable Value in each of the relevant years. The Council could assess the likelihood of further appeals for its main ratepayers and then consider on an overall basis whether there is any risk of further material appeals for the remainder of the ratepayer population. In broad terms, an analysis should be undertaken on the whole rating list and the provision should be based on those assessment the Council believe are at the greatest risk of receiving future challenges/reductions in Rateable Value.

### Investment Properties

*Observation:* The Code requires Investment Property to be carried at fair value at the reporting date. This requires annual revaluations of investment properties. The Council did not undertake a revaluation for one of its investment properties. The property was erroneously omitted from the instructions sent to the valuer.

*Recommendation:* The Council should undertake an annual revaluation of all its investment properties held at year-end as required by the Code. At the time of writing our report, management were in the process of revaluing this investment property.



07

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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 of which you are not aware.



# 08 Data Analytics



# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We can then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

### EY Helix - GLASS: Journal Entry Data Insights - 18 Havant Borough Council - YE - 3/31/2018

#### Facts and Figures

Number of Journals Posted:  
**10,177**

Average Number of Journals Posted per Day:  
**28**

Average Number of Lines per Journal:  
**25**

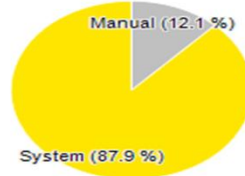
#### Operational Efficiencies

Manual Journals Posted at weekend:  
**129**

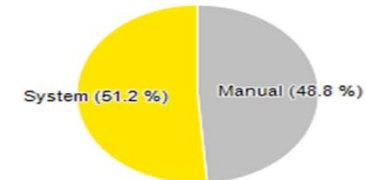
Manual journals where gross amount is < £5:  
**45**

Journal lines with zero value:  
**133**

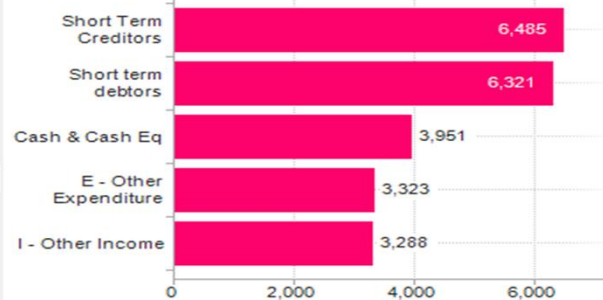
#### Manual v System by Volume



#### Manual v System by Value



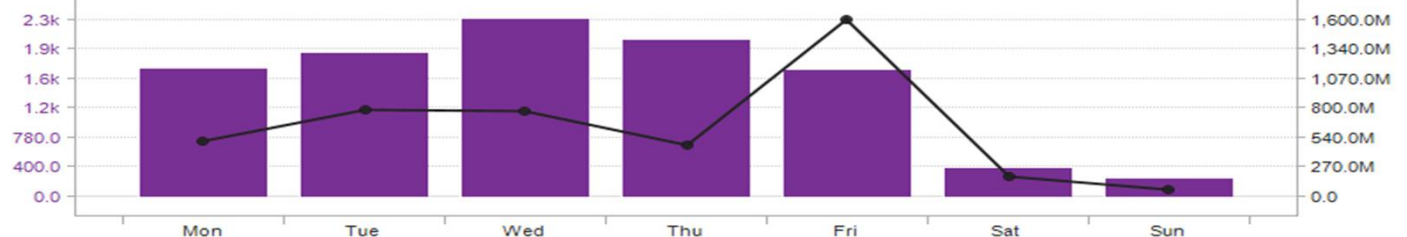
#### Top Five Activity Accounts



#### Bottom Five Activity Accounts



#### Days of the Week





## Journal Entry Testing

### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2018

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

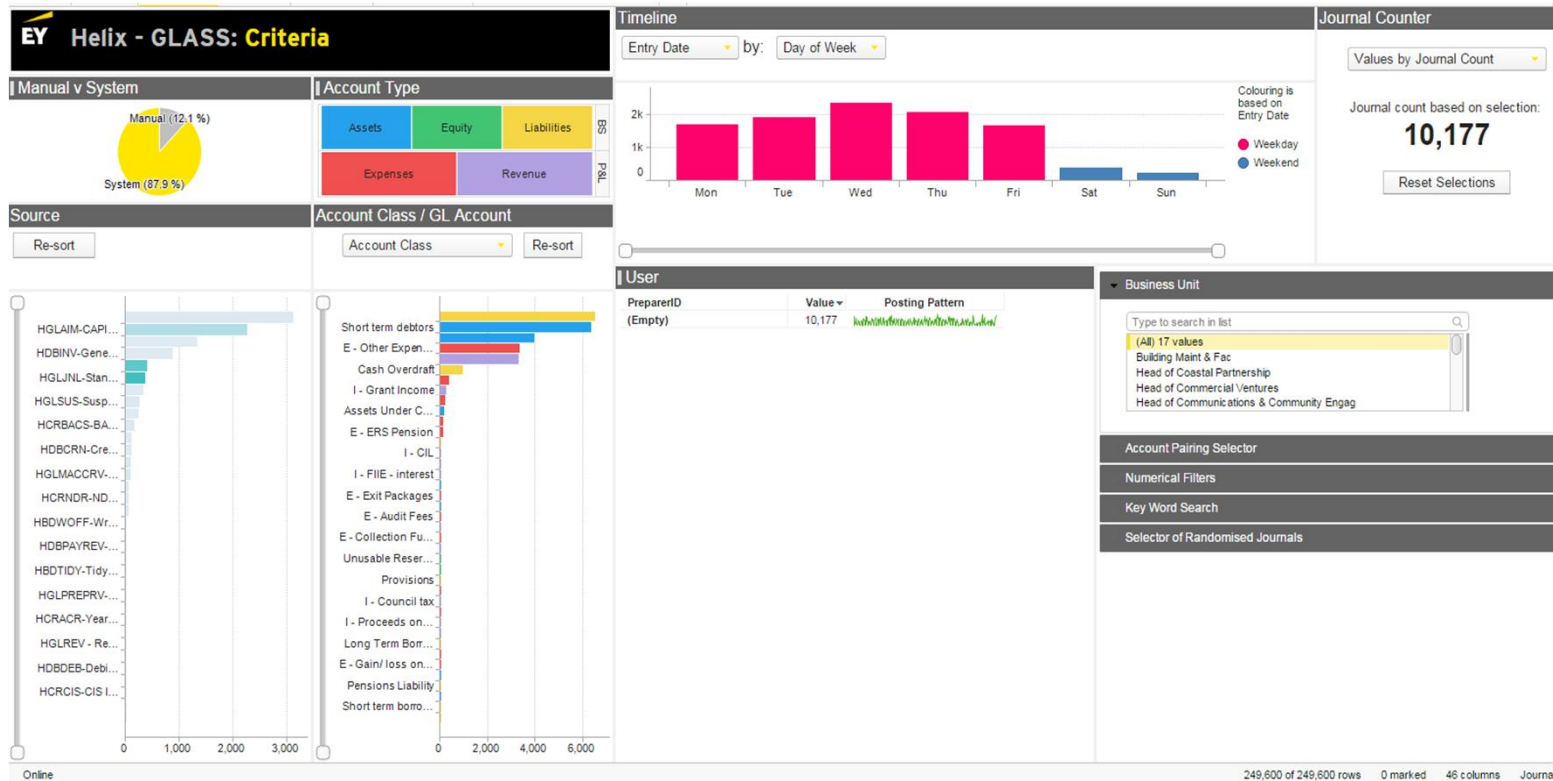
### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

The timeline graphic shows journals made at the weekend and the account type and account class graphics allow us to isolate unusual journal combinations. These were some of our criteria considered for testing of unusual journals.

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### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



# Data Analytics

## Payroll Analyser Insights

The graphic outlined below summarises the Authority's payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.

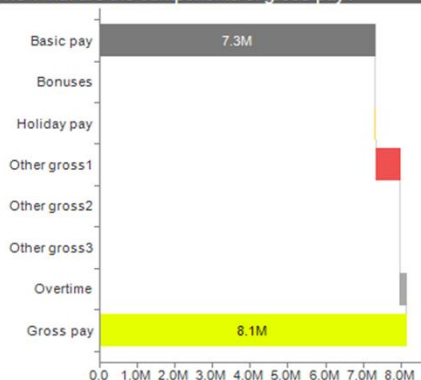
Payroll Analyzer

### 1. Payroll overview

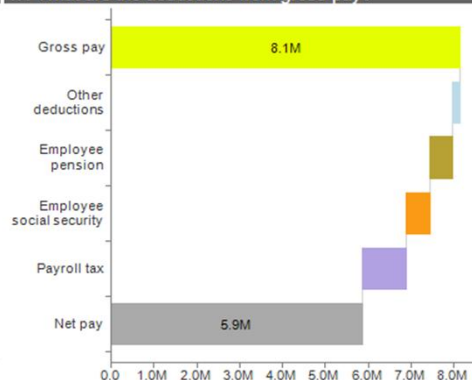
Client name: Havant Borough Council    Year end: 31-Mar-2018

Project name: 18 Havant Borough Council - Payroll - P1-12    Analysis date: 31-Mar-2018

1.0 What are the components of gross pay?



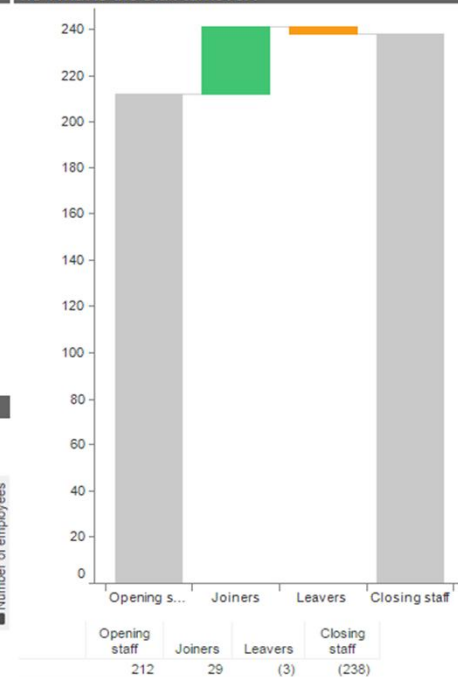
1.1 What are the deductions from gross pay?



1.2 What are the summary numbers behind wages & salaries?

	Components	Amount	% of Gross
Total gross pay	Gross pay	8,141,025	100.0 %
	Basic pay	7,299,842	89.7 %
	Bonuses		
Gross pay components	Holiday pay	35,314	0.4 %
	Other gross1	653,182	8.0 %
	Other gross2		
Net pay & deductions	Other gross3		
	Overtime	152,687	1.9 %
	Net pay	5,865,115	72.0 %
Employer contributions	Other deductions	172,291	2.1 %
	Employee pension	516,294	6.3 %
	Employee social security	580,251	7.1 %
	Payroll tax	1,007,073	12.4 %
	Employer pension		
	Employer social security	0	0.0 %

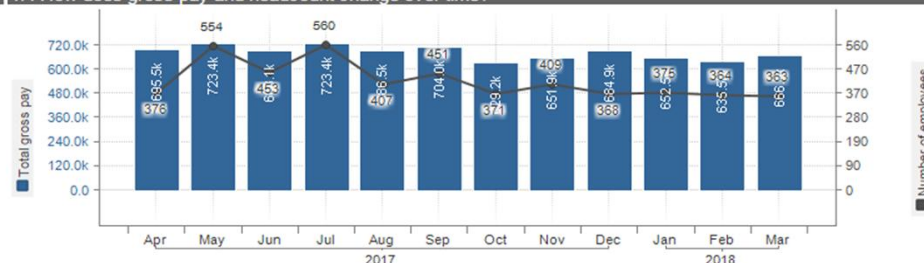
1.5 What is the staff turnover?



1.3 What does the data tell me?

	Gross	#/%
Staff turnover		1.24 %
Employees not in master file	1.5M	432
Employees not in transactions	0.0	0
Payments after leave date	40.2k	23
Payments before join date	1.8k	2
Largest gross payment	45.3k	
Average gross payment	1.6k	
Smallest gross payment	-64.9	
Highest paid employee : Median employee		35.45

1.4 How does gross pay and headcount change over time?



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## Payroll Testing

### What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

### What did we do?

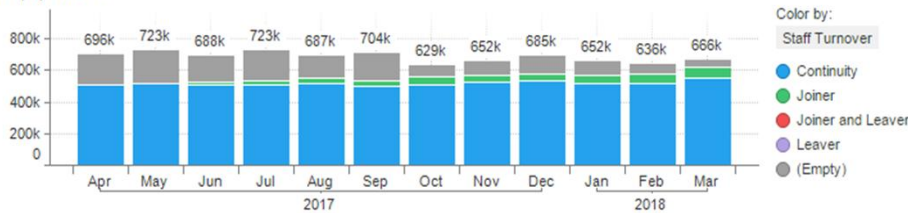
We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appears anomalous compare to average monthly payments.

We then tested the anomalies to determine if they were appropriate and reasonable.

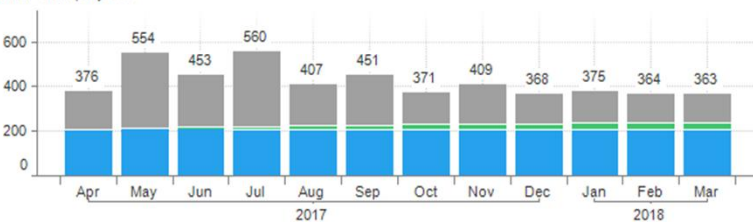
### Payroll Data – Havant Borough Council – 31 March 2018

4.0 Monthly summary: Gross pay by posting date

Gross pay Amount

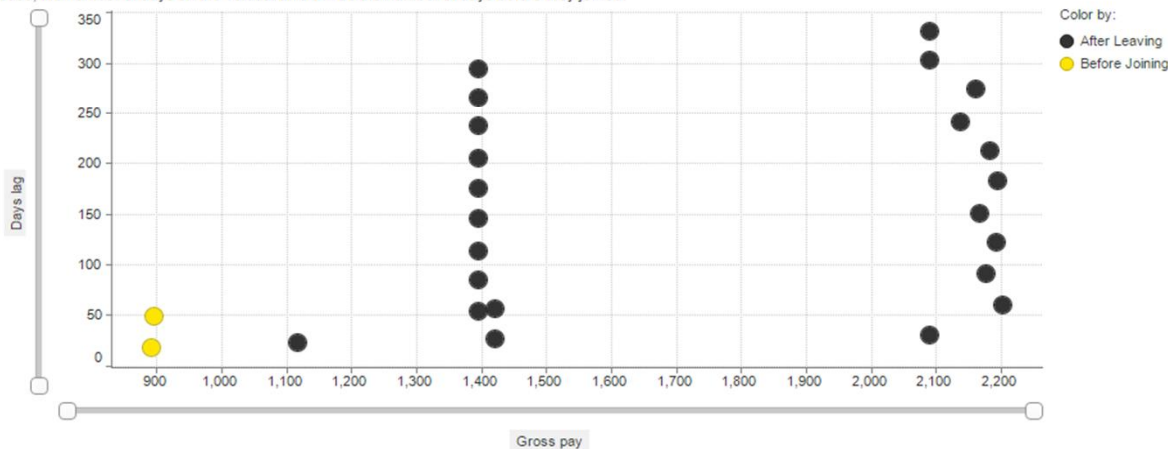


Number of employees



7.1 Gross pay vs. days lag

This shows the employees paid before joining or after leaving. If an employee leaves and returns, it is possible for them to be paid both before joining and after leaving. In this case, the number of days on the vertical axis will be the number of days before they joined.



4.1 Monthly summary: Gross pay

Please select from bar or line graph in 4.0 to limit data shown.

Year	Month	Total Gross pay	Avg Per Transaction	Number of transactions	% of Gross Pay	Nil Payments / Total	Monthly % Change
2017	Apr	695,502.77	1,850	376	100.00 %	19/376	
	May	723,430.88	1,306	554	100.00 %	35/554	4.02 %
	Jun	688,051.86	1,519	453	100.00 %	94/453	-4.89 %
	Jul	723,373.44	1,292	560	100.00 %	35/560	5.13 %
	Aug	686,500.91	1,687	407	100.00 %	87/407	-5.10 %
	Sep	703,994.28	1,561	451	100.00 %	97/451	2.55 %
	Oct	629,215.71	1,696	371	100.00 %	75/371	-10.62 %
	Nov	651,872.34	1,594	409	100.00 %	85/409	3.60 %
	Dec	684,913.03	1,861	368	100.00 %	74/368	5.07 %
2018	Jan	652,482.69	1,740	375	100.00 %	78/375	-4.73 %
	Feb	635,524.74	1,746	364	100.00 %	75/364	-2.60 %
	Mar	666,162.44	1,835	363	100.00 %	71/363	4.82 %
Grand total		8,141,025.09	1,612	5,051	100.00 %	825/5051	0.00 %

### What are our conclusions?

We isolated a sub set of anomalies of employees paid before joining and after leaving for further investigation and requested supporting evidence to verify the posting of these transactions to concluded that they were appropriately stated. At the time of writing our report we were still following up on these items.



09

# Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 2 March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Governance, Audit and Finance Board consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance, Audit and Finance Board on 25 July 2018.

We confirm we have not undertaken non-audit work outside the PSAA Code requirements.

# Independence



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on 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 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, we have been retained to provide audit services from 1 April 2018. In addition the Authority has agreed to our proposal to provide the Housing Benefit Subsidy Assurance service for 2018/19.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	55,781*	50,763**	46,800	56,171
Non-audit work Grant claims	TBC	9,240	9,240	17,872
Total non-audit services	TBC	9,240	9,240	17,872
Total fees	TBC	60,003	56,040	74,043

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- \* The proposed final fee includes £2,510 in respect of additional work required to gain assurance over the significant risks in respect of the value for money conclusion. This fee also occurred in the prior year. It also includes £2,508 in respect of delays experienced during planning and interim visits. These additional fees were discussed with the Chief Finance Officer and is subject to approval by the PSAA.
- \*\* The planned fee included includes £3,963 for the group accounts work in respect of the joint venture with Norse SE. This was communicated in our Audit planning report to the March Governance and Audit Committee.



# 10 Appendices

# Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Governance, Audit and Finance Board of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	2 March 2018 Audit Planning Report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	2 March 2018 Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	20 July 2018 Audit results report

# Appendix A





		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	20 July 2018 Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	20 July 2018 Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	25 July 2018 To be confirmed with letter of representation at Governance. Audit and Finance Board
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Governance, Audit and Finance Board to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Governance, Audit and Finance Board responsibility.</li> </ul>	20 July 2018 Audit results report



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	20 July 2018 Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	2 March 2018 Audit Planning Report and 20 July 2018 Audit results report

# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> <li>Management’s refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	20 July 2018 Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	20 July 2018 Audit results report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	20 July 2018 Audit results report
Group Audits	<ul style="list-style-type: none"> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work</li> <li>Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted</li> <li>Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	2 March 2018 Audit Planning Report and 20 July 2018 Audit results report

# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	20 July 2018 Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	20 July 2018 Audit results report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	20 July 2018 Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	2 March 2018 Audit planning report 20 July 2018 Audit results report
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report

# Management representation letter

## Management Rep Letter

To be prepared on Havant Borough Council's letterhead

xx July 2018

Ernst & Young  
Wessex House,  
19 Threefield Lane,  
Southampton  
SO14 3QB United Kingdom

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Havant Borough Council ("the Group and Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Group and Council financial position of Havant Borough Council as of 31 March 2018 and of its financial performance and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.

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

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

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Council.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, for the Council that are free from material misstatement, whether due to fraud or error.

# Management representation letter

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5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

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

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and council financial statements may be materially misstated as a result of fraud.

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

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

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

1. We have provided you with:

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

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

# Management representation letter

## Management Rep Letter

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### D. Liabilities and Contingencies

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

### E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

### F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

# Management representation letter

## Management Rep Letter

### H. Retirement benefits

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

### I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.

3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

### J. Reserves

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

### K. Use of the Work of a Specialist - Actuary

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

# Management representation letter

## Management Rep Letter

### L. Use of the Work of a Specialist – Property valuers

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

### M. Estimate – NNDR appeals and other provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2017/18.

2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2017/18.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

### N. Estimates - Valuation of Council land and buildings estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We confirm that the significant assumptions used in making the valuation of land and buildings estimate appropriately reflect our intent and ability to use and maintain these assets on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

4. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and council financial statements due to subsequent events.



# Management representation letter

## Management Rep Letter

### O. Estimate – Pensions Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the pensions valuation estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

Yours faithfully,

\_\_\_\_\_  
Lydia Morrison – Chief Finance Officer (S151 Officer)

\_\_\_\_\_  
Councillor R Kennett - Chairman of the Governance, Audit and Finance Board

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