

Havant Borough Council

Year ending 31 March 2014

Annual Audit Letter

October 2014



Building a better
working world

The Members of Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant
Hampshire
PO9 2AX

17 October 2014

Dear Members,

Annual Audit Letter

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

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

2013/14 Audit Results Report for Havant
Borough Council

Issued 3 September 2014 and presented to
the Governance and Audit Committee on 16
September 2014

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

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

Yours faithfully



Helen Thompson
For and behalf of Ernst & Young LLP
Enc

Contents

1. Executive summary.....	1
2. Key findings.....	3
3. Control themes and observations	5

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

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

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

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

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

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 6 June 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of the governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

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

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

Audit the financial statements of Havant Borough Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland).	On 18 September 2014 we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 18 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Governance and Audit Committee) communicating significant findings resulting from our audit.	On 3 September we issued our report to the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 18 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

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

On 18 September 2014 we issued our audit completion certificate.

Issue a report to those charged with governance of the Authority summarising the certification of grant claims and returns work that we have undertaken.

We will issue our annual certification report to those charged with governance in respect of the 2013/14 financial year in December 2014.

2. Key findings

Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 18 September 2014.

The main issues identified as part of our audit of your financial statements, including our conclusions in relation to the areas of risk/areas of audit emphasis outlined in our Audit Plan were:

Significant Risk: Risk of management override

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

We did not identify any material misstatements, evidence of material fraud or other significant matters to report.

Significant Risk: National Non Domestic Rates (NNDR) rateable value appeals provision

The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half the business rates collected by councils are retained locally and half paid over to central government. The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).

Where local businesses believe the current value for business properties is wrong they can:

- ▶ appeal to the VOA and ask them to correct details; and
- ▶ appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal.

The potential cost of successful rateable value appeals is significant to the Authority and contains a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements. Our work focussed on reviewing the accounting transactions made and assessing the reasonableness of the estimation made.

There are no significant issues that we need to report from the work we completed.

Other key finding: Casting and consistency

Compared to previous years, we noted an increase in the number of non-material adjustments required to the draft statements presented for audit. These adjustments were mainly due to casting and cross referencing errors and were all corrected in the final approved financial statements of the Authority.

Value for money conclusion

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

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

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

We issued an unqualified value for money conclusion on 18 September 2014.

Our audit did not identify any significant matters.

Objections received

We did not receive any questions or objections to the Authority's 2013/14 financial statements from members of the public.

Whole of government accounts

On 18 September 2014, we reported to the National Audit Office the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

We did not identify any areas of concern.

Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

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

Certification of grants claims and returns

We will issue our annual certification report for the work we carry out on grant claims and returns for the 2013/14 financial year to those charged with governance in December 2014.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we are required to communicate to those charged with governance at the Authority any significant deficiencies in internal control.

We reported a number of issues in our audit results report. These are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
<p>Our audit identified a significant number of Councillors and members of the Executive team who had failed to return their annual related party transaction declaration. At the time of giving our audit opinion six Councillors had failed to return their declaration.</p>	<p>Additional procedures were undertaken to gain assurance that there were no undeclared related party transactions, including specific representations from the Authority to confirm there are no undisclosed related parties.</p> <p>This will impact on our risk assessment of the control environment for the 2014/15 audit.</p>
<p>The Authority maintains a fixed asset register which records all the Authority's assets along with any associated impairments, revaluations and depreciation charges.</p> <p>However, for land and building the register is not sufficiently disaggregated to meet the requirements of component accounting as required by International Accounting Standard 16 (IAS16).</p>	<p>Additional procedures were undertaken to verify the split of land and building disclosed in the Authority's whole of government accounts return.</p>
<p>The Authority did not submit the general ledger and payroll data by the agreed deadline. Additionally, the payroll data had to be submitted four times due to the Authority sending incomplete data sets.</p>	<p>Additional audit time was required to process the data sets sent by the Authority.</p>
<p>There were a substantial number of working papers that were not completed and were unavailable at the start of our audit. These were received on a piecemeal basis throughout the audit.</p>	<p>Additional auditor and officer time has been required throughout the audit process, particularly where there have been a number of iterations of the same working paper. Since the completion of the audit, we have held initial discussions with the Corporate Accountancy Team Leader to agree how we can address these issues in advance of the Authority's closedown and financial statements preparation process for 2014/15.</p>

4. Fee update

A breakdown of our proposed final fee is shown below. The increase in the fee was agreed with the Head of Governance and Logistics on 19 September 2014, and is currently being reviewed by the Audit Commission. We will update the Governance and Audit Committee when a final decision by the Audit Commission has been made.

	Proposed final fee 2013/14	Planned fee 2013/14	Scale fee 2013/14	Explanation of variance
	£	£	£	
Total Audit Fee – Code work	63,183	61,500	61,500	The increase of £1,683 relates to additional audit work arising from the issues set out in sections 2 and 3 of this letter.
Certification of claims and returns	12,320*	12,320	12,320	

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

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

ey.com