

# Havant Borough Council

Audit results report for the year ended 31 March 2015

September 2015

Ernst & Young LLP







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**Private and confidential**

Governance and Audit Committee  
Havant Borough Council  
Public Service Plaza  
Civic Centre Road  
Havant  
PO9 2AX

14 September 2015

Dear Sirs

**Audit results report**

We are pleased to attach our audit results report for the Governance and Audit Committee. This report summarises our preliminary audit conclusion in relation to Havant Borough Council's (the Authority's) financial position and results of operations for the year ended 31 March 2015. We will issue our final conclusion after the Committee meeting scheduled for 23 September 2015.

The audit is designed to express an opinion on the 2014/15 financial statements, to reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and to address current statutory and regulatory requirements. This report contains our findings on the areas of audit emphasis, our views on the Authority's accounting policies and judgments, and any significant deficiencies in internal control.

This report is intended solely for the information and use of the Governance and Audit Committee and the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of the report with you at the forthcoming Governance and Audit Committee meeting.

Yours faithfully  
For and on behalf of Ernst & Young LLP

Helen Thompson  
Ernst & Young LLP  
United Kingdom  
Enc.



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

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#). This document 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 Audit Results Report 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

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement. In this statement the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and any planned changes in the coming period.

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

As auditors we are responsible for:

- ▶ expressing an opinion on:
  - ▶ the 2014/15 financial statements;
  - ▶ the consistency of other information published with the financial statements,
- ▶ reporting by exception where the Annual Governance Statement does not comply with relevant guidance;
- ▶ reviewing and reporting on the Authority's Whole of Government Accounts return;
- ▶ forming a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings on the areas of audit emphasis and any significant deficiencies in internal control or views on the Authority's accounting policies and judgements.

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

## **Financial statements**

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.

Our main audit findings are set out below.

## **Scope update**

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### **▶ Property, plant and equipment restatement**

Since issuing our audit plan, we received the Authority's draft financial statements and detailed working papers to support the prior year adjustment relating to the cleansing of the fixed asset register. On receipt of these papers we increased our assessment from 'other risk' to 'significant risk'. This resulted from our initial review which identified that:

- the prior year adjustment was higher in value than we had anticipated in our planning work; and
- there were a number of detailed technical questions that required further work by the Authority.

The combination of these factors increased the likelihood of a material misstatement in year and prompted our reassessment of the risk associated with this restatement. Our audit approach focused on designing specific substantive procedures to mitigate the risk, through understanding the controls in place to produce the information, testing a sample

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### Scope update

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of transactions, and giving due consideration to the wider context of the proposed adjustments.

**Our testing identified additional assets, totalling £257,000, which the Authority has added to the fixed asset register and included within the financial statements. All other adjustments proposed were assessed as reasonable.**

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### Significant risk

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#### **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.

**There are no significant issues that we need to report to you.**

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### Other risk

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#### **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 of the business rates collected by councils are retained locally and half paid over to central government. The potential cost of successful rateable value appeals is significant to the Council. There is also 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 to you.**

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### **Control themes and observations**

Our audit identified a number of control themes, the most significant of which are detailed within section three of this report. The issues reported did not result in any material misstatement within the financial statements.

### **Summary of audit differences**

Our audit identified a small number of misstatements in the accounts presented for audit. The most significant of which are detailed in section three of this report.

### **Economy, efficiency and effectiveness**

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified value for money conclusion.

### **Whole of Government Accounts**

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

### **Audit certificate**

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

## 2. Scope update

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan issued on 22 April 2015, the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the Audit Commission.

Our work comprises a number of elements. Our Audit Plan provided you with an overview of our audit scope and approach for:

- ▶ expressing an opinion on:
  - ▶ the 2014/15 financial statements;
  - ▶ the consistency of other information published with the financial statements,
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Authority's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

We carried out our work in accordance with our Audit Plan with the following amendments:

- ▶ a change in scope resulting from an increase in the classification of risk associated with the property, plant and equipment disclosures resulting from the Authority's cleansing exercise of the fixed asset register. The rationale and impact on our testing is explained in section three.

### 3. Significant findings from the financial statement audit

In this section of our report we outline the main findings from our audit of your financial statements, including our conclusions on the areas of risk/ audit emphasis outlined in our Audit Plan.

#### Significant risk 1 – Risk of management override

##### Risk

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

We:

- ▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ reviewed accounting estimates for evidence of management bias; and
- ▶ evaluated the business rationale for significant unusual transactions

##### Our approach focussed on:

- ▶ Considering the representations from management, internal audit and the Governance and Audit Committee.
- ▶ Reviewing significant non-routine year end transactions and estimates including journals, accruals, provisions and cut off arrangements.

##### Our findings:

- ▶ We have received the requested assurances and our review of these has not identified any new risks.
- ▶ Our testing did not highlight any significant issues in this area.

#### Significant risk 2 – Property, plant and equipment restatement

##### Risk

To address the point raised in our 2013/14 audit results report, and in preparation for a system change in 2015/16, the Authority undertook a cleansing exercise of the fixed asset register. This exercise highlighted

- ▶ a number of assets owned by the Authority are currently not included on the asset register. The majority of these are likely to be under the 'de minimis' threshold, but need to be added to enable reconciliation between the asset register and the property system; and
- ▶ historic expenditure which has been capitalised to the asset register over a period of twenty years, and cannot be clearly linked to an Authority owned asset.

Since issuing our audit plan, we received the Authority's draft financial statements and detailed working papers to support the prior year adjustment relating to the cleansing of the fixed asset register. On receipt of these papers we increased our assessment from 'other risk' to 'significant risk'. This resulted from our initial review which identified that:

- the prior year adjustment was higher in value than we had anticipated in our planning work; and
- there were a number of detailed technical questions that required further work by the Authority.

The combination of these factors increased the likelihood of a material misstatement in year and prompted our reassessment of the risk associated with this restatement. Our audit approach focused on designing specific substantive procedures to mitigate the risk, through understanding the controls in place to produce the information, testing a sample of transactions, and giving due consideration to the wider context of the proposed adjustments.

**Our approach focussed on:**

- ▶ Reviewing the prior year adjustment and associated disclosures proposed by the Authority. This included giving due consideration to:
  - ▶ assets recorded on the asset register which had still been excluded from the Authority's fixed asset register; and
  - ▶ the disclosure requirements of the Code of Practice on Local Authority Accounting and relevant auditing standards.

**Our findings:**

- ▶ Our testing identified:
  - ▶ assets totalling a further £257,000 which had been incorrectly omitted from the fixed asset register and financial statements of the Authority. This error has been corrected and had no impact on income or expenditure; and
  - ▶ an additional disclosure was required in note 41 of the financial statements to explain why the Authority was unable to provide 2012/13 comparatives for the affected balances.

**Other risk – National Non Domestic Rates (NNDR) rateable value appeals provision**

**Risk**

The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of 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.

The potential cost of successful rateable value appeals is significant to the Authority. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements. We:

- ▶ sought to understand and assess the reasonableness of the Authority's methodology in estimating any planned provision in respect of rateable value appeals outstanding at the balance sheet date.
- ▶ considered both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumptions made by the Authority on the likelihood of success.

**Our approach focussed on:**

- ▶ Reviewing the assumptions the Authority used when calculating their estimate.
- ▶ Reviewing the completeness of the appeals included in the Authority's estimate.

**Our findings:**

- ▶ Our testing did not highlight any significant issues in this area.
- ▶ Given the nature of the calculation we recommend that the Authority revisits its calculation in 2015/16 to ensure the provision continues to be sufficient.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Additionally, as required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to bring to your attention any:

- ▶ significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; and

- ▶ significant difficulties encountered during the audit.

Our findings in relation to these control themes are documented in the table below:

Area of testing	Details
Additions and cross checking	Our initial testing highlighted a number of casting and cross referencing issues. The errors were not of a material nature and the relevant corrections have been made.

### 3.1 Summary of Audit Differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either '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.

We determined planning materiality to be £1.332 million (2014: £1.151 million). This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.

We set our tolerable error for the audit at the upper end of the available range. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.

We have asked the Authority to correct all misstatements over £66,575. We have included all amounts greater than approximately £0.998 million relating to the Authority in our summary of misstatements below.

#### Corrected Misstatements

We highlight below the following misstatements to disclosure notes in the draft financial statements which are material in value but had no impact on the Authority's reported out-turn position:

- ▶ Note 34 – Leases: our work identified a number of errors in the Authority's lease disclosure in note 34, both as lessee (finance leases) and lessor (operating leases). The errors are summarised below:
  - ▶ Authority as lessor - due to an error in the Authority's supporting working papers the operating lease disclosure was amended to ensure the minimum lease payments receivable were correct. The effect of the change was to reduce the amounts due. The amounts due 'later than five years' was reduced by £1.841 million. This change did not impact on the income or expenditure of the Authority.
  - ▶ Authority as lessee – the Authority has one finance lease where it is the lessee. The Authority failed to apply the retail price indexation value to the rental payments, thus the amounts due over the life of the lease were understated. The amount due 'later than five years' was increased by £1.192 million. Additionally, as this error has occurred since the inception of the lease

the Authority has restated the prior year comparatives and disclosed opening balances for this restatement.

### Uncorrected misstatements

At the time of writing, there are no uncorrected misstatements included within the Authority's financial statements.

## 3.2 Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

### 3.2.1 Current year observations

Description	Impact
It is not possible for the Council to produce an aged debt report for Housing Benefit debtors retrospectively. The report for 2014/15 was produced in July 2015 which resulted in differences to the financial statements.	Additional procedures were undertaken to ensure the Housing Benefit debtors were not materially misstated. We recommend that the Authority run this report on 31st March each year and incorporate this into the working papers provided to audit.

### 3.2.2 Update on issues identified in the audit plan

Description	Finding
Bank reconciliations: at the time of our audit plan, the quarter 2 bank reconciliation had not been fully completed.	Bank reconciliations for the 2014/15 were fully complete and no issues were identified.
Aged debt analysis: due to a system change which took effect from 1st April 2014, all debt migrated from the old system is recorded as being raised on this date. Therefore when producing aged debt reports from the system the ageing of the debt is not accurate.	Ad hoc reports were produced to provide a sufficient audit trail for the financial statements.
Data analytics: in 2014/15 the Council made some significant changes to the chart of accounts in preparation for a system change in 2015/16. These mapping changes caused a number of differences in the opening and closing balances which were still being worked through at the time of issuing our audit plan.	All differences were resolved and there are no additional issues to report.

### 3.2.3 Challenges for the coming year

Description	Impact
The Authority will be implementing a new financial system in October 2015.	We will be required to test both old and new system and the transactions contained therein. We will also need to assure ourselves over the integrity of the data transfer process. Where possible we will seek to rely on the work of internal Audit.

## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining corporate performance management and financial management arrangements we consider the following criteria specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue operating for the foreseeable future; and
- ▶ arrangements for securing economy, efficiency and effectiveness – whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions or improving efficiency and productivity.

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

### Significant risk 1: Delivering efficiencies to secure financial resilience

#### Financial Resilience

##### Description

Like other local government bodies the Authority continues to face financial challenges over the medium term. A clear focus on addressing high cost areas is therefore essential to the economy, efficiency and effectiveness of services delivered and the overall financial resilience of the Authority.

Our approach focussed on:

- ▶ reviewing the reasonableness and robustness of medium term financial planning assumptions set out in the refreshed medium term financial strategy and the progress made with the Service Futures Programme.

##### Basis for conclusion

The Authority delivered a surplus of £0.553 million on its 2014/15 budget against a target surplus of £0.541 million. A budget has been set for 2015/16 to deliver a surplus of £0.18 million. This includes fully utilising the new homes bonus available to the Authority.

The future is more challenging and the current medium term financial strategy (MTFS) highlights a gap of £0.588 million in 2016/17, £0.888 million in 2017/18, rising to £1.5 million in 2019/20. These savings also make a number of assumptions regarding funding streams and currently fully include the new homes bonus within the base funding budget (£1.327 million in 2016/17 and £1.452 million in 2017/18). The Authority has made reasonable assumptions in their MTFS. However, it should ensure that there are plans in place should funding streams or methods of funding change in the future.

There are a number of projects in place which the Authority believes will contribute to bridging the gap, including the Five Districts Procurement Project, other commercial projects and the Service Futures Project. These projects are all in progress, however due to their timing, it is likely the Council will need to make use of general fund balances in 2016/17 and 2017/18 to pump prime these projects or bridge any residual savings gap. These assumptions have been fully disclosed within the MTFS of the Authority.

The Authority has a good track record of delivering its annual budget, including identifying and delivering savings targets and additional income streams. However, the size of the future financial challenge should not be underestimated and the Authority will need to ensure it clearly identifies the savings and service transformation targets; monitors delivery and continues to report progress transparently.

We propose to issue an unqualified conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, but we expect to continue to review your arrangements for financial resilience in our 2015/16 audit.

## 5. Status of our work

### 5.1 Financial statement audit

Our audit work for our opinion on the Authority’s financial statements is substantially complete. The following items were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at the Governance and Audit Committee on 23 September 2015.	Management and Audit Committee
Annual accounts	<ul style="list-style-type: none"> <li>▶ Approval of accounts by Governance and Audit Committee</li> <li>▶ Accounts re-certified by Executive Head of Governance and Logistics</li> </ul>	Management, Audit Committee and EY
Any other outstanding work	<ul style="list-style-type: none"> <li>▶ Management and EY to work together to complete small number of queries</li> </ul>	Management and EY

On the basis of our audit work to date, we anticipate issuing an unqualified auditor’s report on the Authority’s financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

### 5.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion on the Authority’s arrangements to ensure economy, efficiency and effectiveness in its use of resources.

### 5.3 Objections

At the date of writing this report we have received no objections from members of the public.

## 6. Fees update

A breakdown of our fee is shown below.

	Proposed final fee 2014/15 £'000	Planned fee 2014/15 £'000	Scale fee 2014/15 £'000
<b>Total Audit Fee – Code work</b>	TBC	62,400	62,400
Certification of claims and returns*	17,840	17,840	17,840

The Audit Commission published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The scale fee for the audit of Havant Borough Council is £62,400 and assumes a normal risk profile.

We will review the extent of additional work required to review the prior year adjustment made to the property, plant and equipment disclosures at the completion stage of the audit, and discuss whether any changes to the audit fee are necessary.

*\*Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in December 2015 within the Annual Certification Report for 2014/15.*

## 7. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 22 April 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Standing Guidance: in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Governance and Audit Committee on 23 September 2015.

## Appendix A Required communications with the Governance and Audit Committee

There are certain communications that we must provide to the Governance and Audit Committee. These are detailed here:

Required communication	Reference
<p><b>Terms of engagement</b></p>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <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>▶ Any significant difficulties encountered during the audit</li> <li>▶ Any significant matters, arising from the audit that were discussed with management</li> <li>▶ Written representations we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Any other matters significant to the oversight of the financial reporting process</li> </ul>	Audit results report
<p><b>Misstatements</b></p> <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>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit results report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Governance and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud we have identified or information we have obtained indicating that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Letter from Chair of Governance and Audit Committee.
<p><b>Related parties</b> Significant matters arising during the audit in connection with the entity'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 entity</li> </ul>	Audit results report
<p><b>External confirmations</b></p> <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>	Not Applicable

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Governance and 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 Committee may be aware of</li> </ul>	<p>Letter from Chair of Governance and Audit Committee.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's 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>Audit Plan and update in section 8 of this report</p>
<p><b>Going concern</b></p> <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>	<p>Audit results report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit results report</p>
<p><b>Group audits</b></p> <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>	<p>Not Applicable</p>
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	<p>Audit Plan and Audit results report</p>
<p><b>Summary of certification work undertaken</b></p> <p>Annual report to those charged with governance summarising the certification work undertaken</p>	<p>Annual Certification Report – to be issued December 2015.</p>

## Appendix B Letter of representation

### Havant Borough Council - Audit for the year ended 31 March 2015

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Havant Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2015:

#### A. Financial Statements and Financial Records

I have fulfilled my responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).

I acknowledge my responsibility for the fair presentation of the financial statements. I believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. I have approved the financial statements.

I confirm that as the Responsible Officer I have:

- ▶ reviewed the accounts;
- ▶ reviewed all relevant written assurances relating to the accounts; and
- ▶ made other enquiries as appropriate.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

#### B. Fraud

I acknowledge that I am responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

#### C. Compliance with Laws and Regulations

I have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

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

I have provided you with:

- ▶ access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- ▶ 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.

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

I have made available to you all minutes of the meetings of the Council and its relevant 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 on 23 September 2015.

I confirm the completeness of information provided regarding the identification of related parties. I have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which I am 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 financial statements.

I have disclosed to you, and the 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.

#### **E. Liabilities and Contingencies**

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that I have given to third parties.

#### **F. Subsequent Events**

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Accounting Estimates**

I believe that the significant assumptions I used in making accounting estimates, including those measured at fair value, are reasonable.

In respect of accounting estimates recognised or disclosed in the financial statements:

- ▶ I believe the measurement processes, including related assumptions and models, used in determining accounting estimates is appropriate and the application of these processes is consistent.
- ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- ▶ The assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.

- ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **H. Segmental reporting**

I have reviewed the operating segments reported internally to the Board and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- ▶ The nature of the products and services
- ▶ The nature of the production processes
- ▶ The type or class of customer for their products and services
- ▶ The methods used to distribute their products

#### **I. Going Concern**

I have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

#### **Signed on behalf of Havant Borough Council**

I confirm that this letter has been discussed and agreed by the Governance and Audit Committee on 23 September 2015.

Signed:

Name: Jane Eaton

Position: Executive Head of Governance and Logistics

Date: 23 September 2015

Signed:

Name: Councillor K Smith

Position: Chairman, Governance and Audit Committee

Date: 23 September 2015

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