

# Havant Borough Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



Building a better  
working world





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15 October 2015

Dear Members

## **Annual Audit Letter 2014/15**

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 the Governance and Audit Committee in our Audit Results Report presentation given on 23 September 2015.

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

This is the last year that I will audit Havant Borough Council and my successor for the 2015/16 audit will be Andrew Brittain. I would like to take this opportunity to thank officers for their assistance during the course of our work both this year and in the time I have been the auditor of the Council. .

Yours faithfully

Helen Thompson  
For and behalf of Ernst & Young LLP  
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## Contents

<b>1. Executive summary .....</b>	<b>1</b>
<b>2. Key findings .....</b>	<b>3</b>
<b>3. Control themes and observations.....</b>	<b>6</b>
<b>4. Looking ahead .....</b>	<b>6</b>
<b>5. Fees .....</b>	<b>8</b>

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 accountable officer 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 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 22 April 2015 and was 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 an Annual Governance Statement (AGS). In the AGS the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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:

- forming an opinion on the financial statements and on the consistency of other information published with them;
- reviewing and reporting by exception on the Authority’s AGS;
- forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Havant Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 24 September 2015 we issued an unqualified audit opinion on the Authority’s financial statements.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 24 September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority needs to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 24 September 2015.
Consider the completeness of disclosures on the Authority’s AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.

**Area of work**

**Result**

***As a result of the above we have also:***

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Issued a report to those charged with governance of the Authority with the significant findings from our audit.

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Our Audit Results Report was presented on 23 September 2015 to the Governance and Audit Committee.

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Issued 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.

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Issued on 24 September 2015.

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In December 2015 we will also issue a report to those charged with governance of the Authority summarising the certification of grant claims work we have undertaken.

## 2. Key findings

### 2.1 Financial statement audit

The Authority's Statement of Accounts is an important tool to show both how the Authority has used public money and how it can demonstrate its financial management and financial health.

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 and issued an unqualified audit report on 24 September 2015.

Our detailed findings were reported to the Governance and Audit Committee on 23 September 2015.

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#### **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 or evidence of material fraud or and we have no other significant matters to report.

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#### **Significant Risk 2 – Property, plant and equipment restatement**

To address a 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 not included on the asset register and
- ▶ historic expenditure which had been capitalised but could not be clearly linked to an Authority owned asset.

We reviewed our initial risk assessment, and reclassified this as a significant risk. We reviewed the prior year adjustment and associated disclosures proposed by the Authority, 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 testing identified assets totalling a further £257,000 which had been incorrectly omitted from the fixed asset register. We also asked the Authority to make additional disclosures to explain why it was unable to provide 2012/13 comparatives.

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Our audit highlighted a number of casting and cross referencing issues within the draft financial statements. The errors were not of a material nature and the relevant corrections were made by the Authority.

### 2.2 Value for money conclusion

As part of our work we must also conclude whether the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Authority had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 24 September 2015. A summary of the key findings from our work to support our conclusion is set out below.

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### **Significant Risk: Delivering efficiencies to secure financial resilience**

Our audit plan highlighted that, like other local government bodies, the Authority continues to face financial challenges over the medium term. Our work focussed on reviewing the reasonableness and robustness of medium term financial planning assumptions and the progress made with service transformation.

The Authority delivered a surplus of £0.553 million on its 2014/15 budget against a target surplus of £0.541 million. A balanced budget has been set for 2015/16 to deliver a surplus of £0.18 million which 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. 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.

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.

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## **2.3 Whole of Government Accounts**

We 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 had no issues to report.

## **2.4 Annual Governance Statement**

We are required to consider the completeness of disclosures in the Authority's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

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

## **2.5 Objections received**

We did not receive any objections to the 2014/15 financial statements from members of the public.

## **2.6 Other powers and duties**

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

## 2.7 Independence

We communicated our assessment of independence to the Governance and Audit Committee on 23 September 2015. In our professional judgement the firm is independent and the objectivity of the Audit Director and audit staff has not been compromised within the meaning of regulatory and professional requirements

## 2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in December 2015.

### 3. Control themes and observations

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

We reported two 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
It is not possible for the Authority 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 31 March each year and incorporate this into the working papers provided to audit.
Our audit identified a number of errors within the working papers to support the lease disclosures within the financial statements.	Material errors were identified within the lease disclosures in the financial statements. As a result, the Authority was required to calculate and disclose a prior period adjustment. Additional review of the supporting working papers for leases should be undertaken by the finance team to prevent this issue recurring.

## 4. Looking ahead

Description	Impact
<p><b>New financial system</b></p> <p>The Authority will be implementing a new financial system in October 2015.</p>	<p>We are 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.</p> <p>Where possible we will seek to rely on the work of internal Audit.</p>
<p><b>Highways Network Asset (formerly Transport Infrastructure Assets):</b></p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Asset under depreciated replacement cost from the existing depreciated historic cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>The Authority will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> <li>• footways;</li> <li>• cycleways; and</li> <li>• street furniture.</li> </ul>

## 5. Fees

Our fee for 2014/15 was set in line with the scale fee set by the Audit Commission and reported in our Audit Plan and Audit Results Report.

However, we carried out additional work in the final stages of our audit:

- ▶ Property plant and equipment prior period adjustment: we reviewed the detailed working papers associated with the adjustment proposed by the Authority. This involved a significant number of follow up questions which resulted in identification of assets totalling a further £257,000 which had been incorrectly omitted from the fixed asset register and financial statements of the Authority. We also identified a need for additional disclosures in note 41 of the financial statements to explain why the Authority was unable to provide 2012/13 comparatives.
- ▶ Lease disclosures: 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 former resulted in the Authority needing to restate the prior year comparatives and disclose opening balances.

We have now completed our audit, and our final proposed fee is £65,519. The Executive Head of Governance Logistics has agreed this additional fee, and it is now subject to agreement by Public Sector Audit Appointments Ltd.

We carried out no non-audit work in 2014-15 (none in 2013-14).

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15	Final fee 2013/14
Total Audit Fee – Code work	£65,519 (TBC)	£62,400	£62,400	£64,083
Total Audit Fee – Certification of claims and returns	*TBC	£17,840	£17,840	£12,320

*\* 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.*

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