

Havant Borough Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (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 from 1 April 2015’ issued by 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 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. This report is intended solely for the use of the Members of the audited body. 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 National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Governance and Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Havant Borough Council for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in Appendix F:</p> <ul style="list-style-type: none"> • Receipt of key contract details to enable us to complete the contract review; • Review of the response to Business rate appeals provision queries; • review of the final version of the financial statements • completion of subsequent events review • receipt of the signed management representation letter <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We had no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>We have identified two unadjusted audit differences within the draft financial statements relating to the cashflow statement and the collection fund, which management have chosen not to adjust. We ask the Governance and Audit Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation.</p> <p>Appendix A to this report sets out the uncorrected misstatements. We do not consider these to be material to our audit opinion.</p> <p>Our audit identified a number of further audit differences which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix B.</p>
Scope and materiality	<p>In our audit plan presented at the 29 June Governance and Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1.33 million. We have reassessed</p>

this based on the actual results for the financial year and have increased this amount to £1.335 million. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.

The threshold for reporting audit differences which impact the financial statements has also increased from £66,580 to £66,733.

We carried out our work in accordance with our Audit Plan.

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:

- Risk of management override
- New financial system
- Capacity of the Finance Team.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.

Other reporting issues

We have no other matters we wish to report.

Control observations

During the audit, we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. These are set out in the "Assessment of control environment" section of this report.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Andrew Brittain

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

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

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

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

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

3. Financial statements audit

Addressing audit risks

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

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

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> · 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 including the valuation of property, plant and equipment and investment property, bad debt provision and business rates appeals provision; · evaluated the business rationale for any significant unusual transactions; and · evaluated the appropriateness of accounting policies against Code guidance and for changes from the prior period. 	<p>Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.</p>

New Financial System

The Council implemented a new financial system in October 2015. ISA (UK and Ireland) 315 requires us to obtain an understanding of the relevant controls within each of the financial systems in operation in the current financial year.

Additionally, data has been migrated from the old system and there is a risk that the data might not be complete. Our initial testing has highlighted:

- certain transaction dates migrated in English format from the old finance systems have defaulted to an American format in the new Civica system; and
- the Agresso finance system used prior to October 2015 does not meet current Public Services Network compliance criteria and will need to be decommissioned before our final audit commences. Officers are working on a legacy data solution and we will be working with them to ensure that all information we require is made available.

We:

- confirmed our understanding of the old system and formed an initial understanding of the new system in operation by undertaking additional walkthrough testing;
- undertook detailed testing of the data migration process, specifically ensuring that there are no date migration issues from the incorrect date format that the system has used as a default;
- ensured the completeness of individual account balances; and
- undertook substantive testing of balances on both old and new systems.

We completed the work as planned and did not identify any further issues with the data migrated to the new system. In addition, we have not experienced any issues in accessing the data to enable us to undertake substantive testing of both old and new systems.

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

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Capacity of the Finance Team</p> <p>The Council is embarking on a reorganisation of the senior management team and there are interim arrangements to cover the Section 151 Officer who left in March. There is a concern that this may increase the burden on operational finance staff which will impact upon the quality of financial information presented for audit.</p> <p>Additionally, as the Council moves towards the implementation of the new corporate services contract there is risk that finance staff may leave the Council. This could result in the Council having insufficient resource to deliver the financial statements in line with the agreed audit timetable, and cause delays in responding to audit queries.</p>	<p>We:</p> <ul style="list-style-type: none"> · 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 are communicated at an early stage; · identified opportunities to bring our work forward. 	<p>The quality and accuracy of the financial statements and the supporting working papers had not deteriorated despite the decreased capacity in the finance team. In fact we noted fewer casting and consistency issues in this year than in the previous year. Officers responded to our enquiries on a timely basis and we did not experience any significant delays with our requests.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We wish to draw your attention to the following issues:

Policy/practice/finding	EY comments
<p>Business rate appeals provision</p> <p>We reviewed the business rate appeals provision to ensure that the basis for the provision was reasonable. We identified that the approach to providing for successful business rate appeals has not been amended or reviewed since the requirement was introduced three years ago. Additionally when assessing if the provision was under or over stated we ascertained that it is not possible to identify how accurate the prior year provision has been as the system does not produce a report of amounts refunded due to successful appeals.</p>	<p>Recommendation 1: The Council should review the methodology for the business rate appeals provision to ensure that it is suitable for purpose and provides an accurate basis for the provision.</p>
<p>Valuation of land and buildings</p> <p>The Council currently revalues a proportion of land and buildings as at 31 March and ensures that all assets are revalued at least every five years as part of a rolling programme. We identified that assets revalued as at 31 March 2016 subsequently have a depreciation charge to reflect the use of the asset during the period alongside assets which have not been revalued.</p>	<p>Recommendation 2: The Council should review the timing of the annual valuation and depreciation charges are revisited to ensure that the carrying value and depreciation charges are appropriate.</p>

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of 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.

Description	Impact
<p>Bank reconciliation</p> <p>From our work on cash and bank we identified that the Council has an unreconciled difference of £120. The Council have undertaken an exercise to ensure that there are no large unreconciled differences behind this and will keep this difference under review. The issue arose following the system migration and we note that there is currently no formal monthly reconciliation process in place.</p>	<p>Recommendation 3: The Council should implement a formal monthly bank reconciliation including preparer and reviewer sign offs.</p>
<p>Authorisation of journals</p> <p>We identified that there is currently no independent authorisation of manual journals within the finance department. Without an authorisation or review process there is a risk that journal mispostings may not be identified.</p>	<p>Recommendation 4: The Council should introduce an authorisation or review process for manual journals</p>

Annual Governance Statement

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

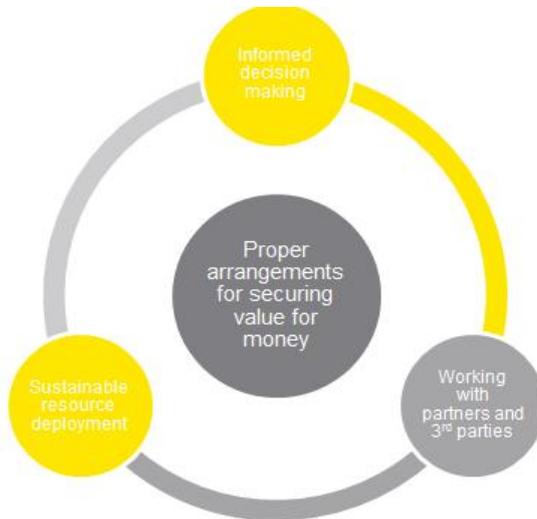
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix G. In addition to the standard representations, we have requested the following specific representations:

- Business rate appeals provision
 - We have requested a specific representation in respect of the business rate appeals provision as it has not been possible to test the accuracy of the prior year provision and gain assurance that the basis of the entirety of the current year provision is appropriate.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office. We have completed our work and have no issues to report.

4. Value for money



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.

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.

Overall conclusion

We identified two significant risks in relation to these arrangements:

- Financial sustainability; and
- Partnership working

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that the Council have put in place proper arrangements to secure value for money in the use of resources.

Significant risks

The Code of Audit Practice defines a significant risk 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"

The table below presents the findings of our work in response to the risk areas in our audit plan.

VFM risk identified within our audit plan	Impacts arrangements for:	Key findings
<p>Partnership working</p> <p>Corporate Services Contract</p> <p>The Council has tendered for a new corporate services contract with four other local authorities. The procurement is for two lots, one for data based services and one for property based services. The contracts are for a period of up to 9 years to 30 September 2025, with forecast savings of £50.65m across the five councils.</p> <p>These contracts are due to start in the 2016/17 financial year (2017/18 at Havant Borough Council); however the contracts have been procured and entered into in 2015/16.</p> <p>We consider there to be a significant risk to our value for money conclusion in relation to the procurement of the contracts and in establishing the governance arrangements between the Councils.</p> <p>Norse South East</p> <p>The Council has also entered into partnership with Norse Commercial Services and developed a Joint Venture Company called Norse South East. Norse South East will be providing operational Services from April 2016 dealing with refuse and recycling collections, street cleaning, grounds maintenance and beach management.</p> <p>We consider there to be a significant risk to our value for money conclusion in relation to the procurement of the contracts and in establishing the governance arrangements between the Council and the Joint Venture Company.</p>	<p>Working with partners and other third parties</p>	<p>Corporate Services Contract</p> <p>In relation to our review of the evaluation process for awarding the preferred supplier for both lots:</p> <ul style="list-style-type: none"> - Each stage of the procurement process was focussed on retaining and improving customer service, whilst increasing value for money. The procurement strategy considered by the Project Board, established the key outcomes the councils wished to achieve for the new services and this was built into many areas of the invitation to tender including customer service, health and safety and quality assurance. Tenderers were required to submit service delivery plans which were compared to these outcomes. - The evaluation was carried out on the basis of a joint contract for all five councils. The bids were reviewed by representatives of each of the Councils, including legal and financial representatives. A moderation meeting was held for both lots to reach a coherent single result based on quantitative and qualitative factors. - Our review of the procurement process confirmed that the approach to the evaluation of the bidders, for both lots, was appropriate and objective. <p>In relation to our review of the revised Inter-Authority Agreement, and the adequacy of the proposed governance arrangements</p> <ul style="list-style-type: none"> - A revised legally binding inter-authority agreement (the IAA) was agreed and signed by all 5 councils after the award of the Capita and Vinci contracts. The revised IAA clearly sets out the agreed arrangements for managing and monitoring the contracts. - The IAA clearly sets out the expectations and roles of the authorities in relation to the Corporate Services Contract. It establishes a number of key boards, to provide regular oversight and governance of the contract for all of the Authorities involved. These should ensure sufficient challenge and scrutiny of Suppliers, and enable the authorities to apply the appropriate sanctions in the contract for any poor performance. - We conclude that the proposed governance arrangements established in the corporate services contract and the Inter-Authority Agreement will provide sufficient oversight and effective governance of the contract. <p>As the contracts become effective in 2017 for Havant Borough Council, the arrangements are not yet operational. This is likely to be an area of focus for our work relating to the 2016/17 financial year.</p> <p>Norse South East</p> <p>From our review we are satisfied that an appropriate process has been followed by the Council including appropriate legal advice to</p>

		<p>support the approach adopted. In addition, the governance arrangements established in the contract are appropriate to ensure effective monitoring of performance of the Joint Venture Company. As the contract was signed on 1/4/16, part of the focus of our work next year will include how the governance arrangements are operating in practice.</p>
<p>Financial sustainability</p> <p>Like other local government bodies the Council continues to face financial challenges over the medium term. The Council must save circa £4 million over the next four years.</p> <p>The Council continues to seek alternative solutions to ensure that local services can be maintained and supported in the future, in line with local need.</p> <p>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 Council.</p>	<p>Deploying resources in a sustainable manner</p>	<p>We have reviewed the PSAA's value for money profile tool and did not identify any areas of concern.</p> <p>We reviewed the Council's medium term financial strategy (MTFS), 2016/17 budget, quarter 1 and month 4 out-turn.</p> <p>The Council achieved a £1.788 million surplus for 2015/16. We have reviewed the Council's 2016/17 budget and MTFS and found that the assumptions used appear reasonable. From our review of the 2016/17 performance to date the Council is on track to achieve its 2016/17 budget.</p> <p>Looking forward in the MTFS, there is some uncertainty in relation to the New Homes Bonus for 2019/20 and the Retained Business Rates income. We have reviewed the Council's reserves and are satisfied that the Council has sufficient reserves to meet any shortfall in the short to medium term. By entering into the partnership arrangements with Norse and the 5 councils contract, the Council has secured savings and will need to ensure that there are good contract management and governance arrangements in operation to ensure that these are achieved.</p>

Other matters to bring to your attention

We have no other matters to bring to your attention.

Appendix A – Uncorrected audit differences

The following differences, which are greater than £66,733 have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

Cash Flow statement

Disclosure	Description of difference
Note 23 – Net cash flow from operating activities	'Other non-cash movements' of £170,000 in note 23 to the financial statements has been used to balance the cash flow and is an unsupported balancing item only.

Collection fund

Disclosure	Description of difference
Collection Fund	The 'Contribution to Bad Debt Provision' was understated by £383,000 due to an error in the calculation. The Collection Fund 'Contribution to bad debt provision' was understated by £383,000 due to an error in the calculation. The Collection Fund is a memorandum account which records all transactions relating to Council Tax and Business Rates. The Council draws its share of Council Tax and Business Rates from the Fund. The Council's share of the contribution to the bad debt provision which would be reflected in the Council's Comprehensive Income and Expenditure Statement and Balance sheet is £49,000.

Appendix B – Corrected audit differences

The following corrected differences, which are greater than £66,733 have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £[000]	Comprehensive income and expenditure statement (Decrease) / Increase £[000]
Cash and cash equivalents	162	-
Bank overdraft	(162)	-
Debit Cash balance incorrectly recognised within Overdraft figure		
Cumulative effect of adjusted differences	0	0

Cash Flow statement

Item of cash flow	Operating cash flows (Decrease) / Increase £[000]	Investing cash flows (Decrease) / Increase £[000]	Financing cash flows (Decrease) / Increase £[000]
Capital grants received		306	
Capital grants received were omitted from the cashflow statement and supporting note, Note 24 Net cashflow from investing activities.			
Cumulative effect of adjusted differences		306	

Disclosures

Disclosure	Description of difference
Note 6 – Material items of income and expense	The disclosure note did not include £9.661 million of property, plant and equipment revaluations as a material item of income or expense.
Note 26 – Amounts reported for resource allocation decisions	The headings in the note required amendment to agree to the income and expenditure disclosed.

Appendix C – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation following Governance and Audit Committee on 21st September 2016.	Management and Governance and Audit Committee
Statement of accounts	Review of the final version of the financial statements Approval of accounts by Governance and Audit Committee Accounts re-certified by Head of Finance and Assets	EY, management and Governance and Audit Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Any other outstanding work	Management and EY to work together to complete any outstanding work	EY and management

Appendix D – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance and Audit Committee on 21 September 2016.

We confirm that we have met the reporting requirements to the Governance and Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of March 2016.

Appendix E – Auditor fees

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

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	52,271	46,800	Additional fee of £5,471 – see below for further details
Certification of claims and returns	9,240	9,240	

The proposed final fee includes £4,390 in respect of additional work required to gain assurance over the Council's new financial system (detailed in Section 3) and a further proposed fee of £1,081 in respect of the partnership working significant risk. This is subject to approval by the PSAA.

The final fee is subject to the satisfactory clearance of the outstanding audit work.

We confirm that we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix F – Draft audit report

Independent auditor's report to the members of Havant Borough Council

Opinion on the Authority's financial statements

We have audited the financial statements of Havant Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Notes 1 to 42,
- 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 2015/16.

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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities set out on pages 19-20, the Section 151 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2015-16 Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or

materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Havant Borough Council as at 31 March 2016 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 2015/16.

Opinion on other matters

In our opinion, the information given in the 2015-16 Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Conclusion on Havant Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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.

Auditor's responsibilities

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.

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 2015, 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 2016.

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.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, 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 2016.

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.

Andrew Brittain (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
22 September 2016

Appendix G – Management representation letter

21 September 2016

Ernst & Young

To:

Andrew Brittain

Executive Director

Ernst & Young LLP

Apex Plaza,

Forbury Road

Reading RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of Havant Borough Council (“the Council”) for the year ended 31 March 2016. 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 Council financial position of Havant Borough Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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 2015/16.

1. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.

2. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
3. As members of management of the Council, we believe that the 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 2015/16, that are free from material misstatement, whether due to fraud or error.
4. 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.
 - Cashflow – Note 23 - We have not corrected these differences identified by and brought to the attention from the auditor because all of the material reconciling items between the Income & expenditure account and cashflow have already been identified in the note and does not add any value to the reader of the Accounts.
 - Collection Fund - The adjustment identified relates specifically to the collection fund (Council Tax and Business Rates that Havant Borough Council collects and distributes on behalf of all the major preceptors), and does not impact on the Council's General Fund. Of the £383,000 adjustment, 12.8% (£49,000) relates to HBC's Accounts; the remainder relates to Hampshire County Council (72.2%), Hampshire Fire and Rescue (4.2%) and Hampshire Police & Crime Commissioner (10.8%). Officers have discussed the correction with Hampshire County Council, who have determined that the adjustment is not material enough to warrant any adjustment to their Accounts. To ensure consistency, no adjustment has been made to the HBC Accounts.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. 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 financial statements.

3. We have made available to you all minutes of the meetings of the Council and Governance and Audit committee held through the year to the most recent meeting on the following date: 29th June 2016.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 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 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

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 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 financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than those described in Note 39 to 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. Business rate appeal provision

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 2015/16.

2. We confirm that the significant assumptions used in making the business rate appeal provision appropriately reflect our intent and ability to carry out business rate collection on behalf of the entity.

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

Yours faithfully,

Stuart McGregor, Head of Finance and Assets

Cllr Kenneth Smith, Chairman of the Governance and Audit Committee

Appendix H – Required communications with the Governance and Audit Committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern 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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt Havant Borough Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management and those charged with governance. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>We have received all requested communications.</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ 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 ▶ 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 	<p>We have not identified any material instances of non-compliance with laws and regulations.</p>
<p>Independence</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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan and Audit Results Report</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Audit Results Report</p>
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan Audit Results Report</p>
<p>Certification work</p> <p>Summary of certification work undertaken</p>	<p>Certification Report</p>

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