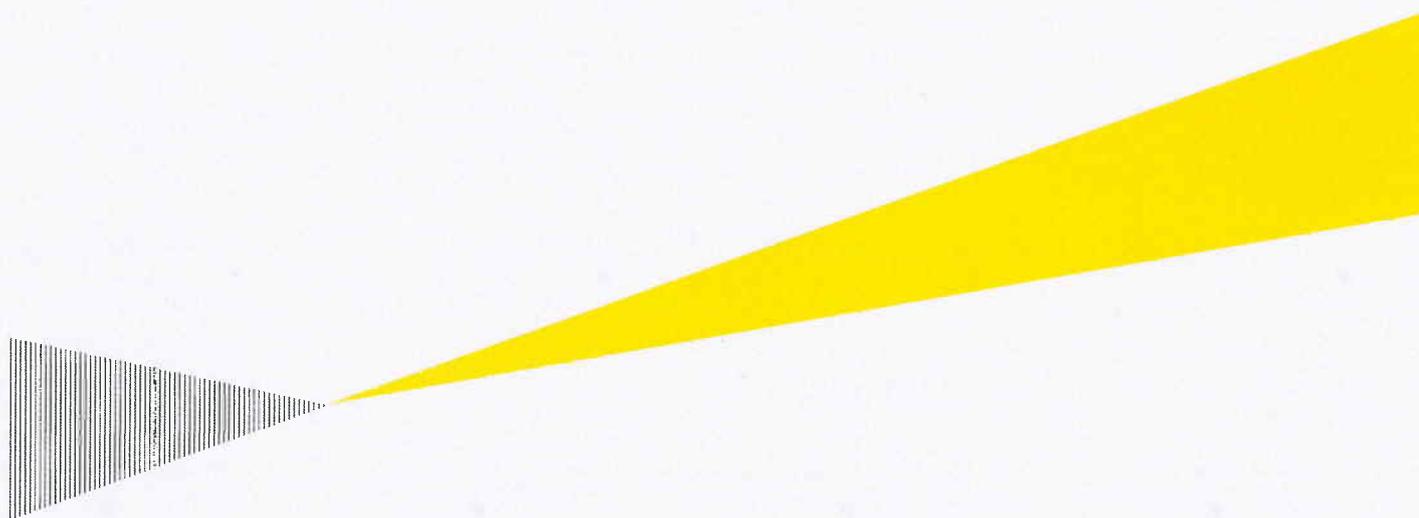


# Havant Borough Council

Audit Results Report (ISA260) for the year ended 31  
March 2013

Issued 2 September 2013



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**Private and confidential**

Joint Governance Committee Chair  
Havant Borough Council  
Public Service Plaza  
Civic Centre Road  
Havant  
PO9 2AX

2 September 2013

Dear Sir

**Audit results report**

We are pleased to attach our audit results report for the forthcoming meeting of the Joint Governance Committee. This report summarises our preliminary audit conclusion in relation to Havant Borough Council's (the Council) financial position and results of operations for 2012/13.

The audit is designed to express an opinion on the 2012/13 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

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

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting scheduled on 16 September 2013.

Yours faithfully

Helen Thompson  
For and on behalf of Ernst & Young LLP  
Ernst & Young LLP  
United Kingdom  
Enc.



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

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

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

This 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. Overview of the financial statement audit

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, 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 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.

As auditors we are responsible for:

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

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

## Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Council's financial statements. Our main findings in relation to the areas of risk/areas of audit emphasis included in our Audit Plan are set out below.

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### Other financial statement risks:

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#### **Accounts payable: no audit trail to support a variance between purchase order and invoice**

We support Internal Audit's findings on their review of the accounts payable system. In particular we note that from the sample of manual invoices selected for testing one was paid where there was no audit trail to support a difference of £1200 from the original purchase order entered onto the CEDAR system and the invoice that was paid.

Whilst this is unlikely to result in material misstatement our audit approach will require increased focus on manual payments made by the Council.

**From the work completed, there are no significant issues that we need to report to you.**

---

#### **Payroll: no audit trail to support a contract variation**

We support Internal Audit's findings on their review of the payroll system. Specifically we have considered one failure where the Council failed to retain a sufficient audit trail to support a variation to a contract for 2012/13.

This is unlikely to result in a material misstatement in the financial statements because it was an isolated error and there are compensating budgetary controls in place.

**From the work completed, there are no significant issues that we need to report to you.**

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

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

### **Whole of Government accounts**

We have completed the work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts. We have no issues to report.

### **Control themes and observations**

Our audit identified the following control issues that we are bringing to your attention. We have agreed with officers recommendations to address these.

<b>System</b>	<b>Details</b>
Payroll	When testing the Council's payroll system a number of documents could not be provided to support amendments that were made to the masterfile.
Accounts Receivable (Income)	When testing the Council's regular items of income it was noted that these had not been accounted for on an accruals basis.
Capital Financing	Our recalculation of the Council's Minimum Revenue Provision (MRP) highlighted that there is a possible over provision of £251,000 included within the Council's expenditure.

### **Summary of audit differences**

Our audit identified a small number of misstatements in the accounts presented for audit. These are detailed in section 3 of this report.

## 2. Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan dated 19 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

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

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

In this section of our report, we outlined the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk/areas of audit emphasis outlined in our Audit Plan. These are set out below.

#### Other financial statement – no audit trail to support a variance between purchase order and invoice

---

We support Internal Audit's findings on their review of the accounts payable system.

In particular we note that from the sample of manual invoices selected for testing one was paid where there was no audit trail to support a difference of £1200 from the original purchase order entered onto the CEDAR system and the invoice that was paid.

##### Our approach focussed on:

- ▶ Increasing the inherent risk associated with accounts payable manual invoices.
- ▶ Increasing the level of testing undertaken on invoices paid in the financial year.

##### Our findings:

- ▶ Our testing has not identified any material misstatements due to inappropriate authorisation of transactions.
- ▶ The Council should ensure there is an adequate audit trail to evidence variances between purchase orders and invoices that are subsequently paid.

#### Other financial statement – no audit trail provided to support a contract variation

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We support Internal Audit's findings on their review of the payroll system. Specifically we have considered one failure where the Council failed to retain a sufficient audit trail to support a variation to a contract for 2012/13.

##### Our approach focussed on:

- ▶ Increasing the inherent risk associated with payroll transactions.
- ▶ Increasing the level of testing undertaken on payroll calculations.

##### Our findings:

- ▶ Our testing has not identified any material misstatements or inappropriate payments made. We did identify further control weaknesses and these are documented below.
- ▶ Evidence to support changes to the payroll masterfile should be retained by the Council.

#### 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.

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>When undertaking our walkthrough of the Council's payroll system a number of documents could not be provided to support three amendments that were made to the payroll masterfile:</p> <ul style="list-style-type: none"> <li>▶ one contract could not be found;</li> <li>▶ evidence to support a variation in contract could not be located; and</li> <li>▶ one pension enrolment form could not be located.</li> </ul>	<p>We have undertaken additional testing on the payroll expenditure of the Council. We have ensured the expenditure is in line with expectations and re-performed a sample of transactions to confirm their accuracy.</p> <p>The Council should ensure that procedures are in place to support all changes to the payroll masterfile.</p>
<p>When testing the Council's periodic income it was noted that it had not been accounted for on an accruals basis.</p> <p>The 2012/13 income figures correctly include four receipts. However, one of these receipts related to quarter 1 of 2013/14 whilst quarter 1 of 2012/13 was incorrectly omitted.</p> <p>We undertook additional testing to ensure that this has no material impact on the financial statements.</p>	<p>Whilst this issue has no material impact on the financial statements, income is likely to be overstated due to the impact of inflation.</p> <p>The Council should ensure that all income and expenditure is accounted for on an accruals basis.</p>
<p>The Prudential Code requires the Council to calculate a Minimum Revenue Provision (MRP), which represents an internal financing charge on unfinanced capital purchases.</p> <p>A calculation of MRP based on the Prudential Code formulae was compared to the actual MRP calculated by the Council. A difference, and possible over provision, of £251,000 in the Council's expenditure balance was identified.</p> <p>The difference relates to assets purchased through internal borrowing since the introduction of the Prudential Code in 2004, and will be investigated in 2013/14.</p>	<p>Whilst this issue has no material impact on the financial statements the Council should investigate this difference for the 2013/14 financial statements audit.</p>

## 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.

### **Corrected Misstatements**

Our audit did not identify any material misstatements, and only a small number of presentation and disclosure amendments were required to the financial statements.

We highlight in particular the following misstatement identified during the course of our audit that has been corrected by management:

- ▶ Note 15 (Financial Instruments) was corrected to ensure that the note disclosed all contractual assets and liabilities required by the Code of Practice on Local Authority Accounting in the United Kingdom.

The corrected errors had no impact on the Council's reported out-turn position.

### **Uncorrected misstatements**

We did not identify any uncorrected misstatements that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2013.

## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

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

The table below presents the findings of our work in response to the areas of focus presented to you in our Audit Plan,

Other risks/areas of focus:	Impacts arrangements for securing:	Key findings:
<b>Financial resilience</b>		
2013/14 budget setting, and medium term financial planning arrangements, including assumptions made in response to the 2013/14 and provisional 2014/15 settlements.	Financial resilience	From our review of the medium term financial strategy and budget setting process we have not identified any risks to our value for money conclusion.
The Council's ongoing response to the recent significant legislation, including the 2011 Localism Act, the Welfare Reform Act 2012 and the Local Government Finance Act 2012.		Our review of the Council's progress against the key legislative changes has not highlighted any risks to our value for money conclusion.
<b>Economy, efficiency and effectiveness</b>		
The extent to which the joint management arrangements are delivering value for money to both East Hampshire District Council and Havant Borough Council.	Economy, efficiency and effectiveness	Our review of the impact of the joint management arrangements has not highlighted any risks to our value for money conclusion.
The impact of the Audit Commission's value for money profile data.		There was no indication from the review of the Audit Commission's profiles of any risks to our value for money conclusion

## 4.1 Financial resilience

We are required to assess the Council's arrangements for securing financial resilience. This includes an assessment of whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The financial resilience criterion has three aspects:

- ▶ financial governance;
- ▶ financial planning; and
- ▶ financial control.

Our work focused on two areas:

### The budget setting process

The medium term financial strategy, covering the period 2013-2018 was prepared in late 2012. This strategy identified the assumptions used in determining the likely financial position of the Council over the next five years. This included assumptions about inflationary increases, pay awards, Council Tax increases and returns on investments. The focus was primarily on 2013/14, with assumptions for future periods being best estimates given the uncertainty with future funding and other changes. The assumptions used in the medium term financial strategy are assessed as reasonable, and have been based on published forecasts where possible.

Budget monitoring is undertaken by officers on an ongoing basis and is reported quarterly to the Joint Management Team and to Councillors through the Joint Governance Committee. This includes an analysis of the year to date performance against the agreed budget with explanations of significant variances. The reported outturn position for 2012/13 was a surplus of £1.021 million, the variance for this has been fully explained to members at the July Cabinet meeting. To date there are no significant issues with the 2013/14 budget.

### The Council's response to recent legislative changes

The Council has considered the key aspects of changing legislation including:

- ▶ the retention of business rates;
- ▶ the cap on the increase in Council Tax, before a local referendum is required;
- ▶ practical implementation of the general power of competency; and
- ▶ the abolition of the Standards Board regime.

The implications from both the retention of business rates and the increase in the council tax cap have been considered within the Council's budget setting process. The Council has updated its governance arrangements to address the significant changes arising from the Localism Act 2011, including the general power of competence and the abolition of the Standards Board regime. The Council held seminars in 2012 for members to familiarise themselves with the impact this will have on council business, structure and governance.

## 4.2 Securing economy, efficiency and effectiveness

We are also required to assess the Council's arrangements for securing economy, efficiency and effectiveness. This criterion has two aspects

- ▶ prioritising resources; and
- ▶ improving efficiency and productivity.

To make sustainable cost reductions organisations need to take a strategic approach to challenging all areas of spend, whilst maintaining quality, considering how spending matches the priorities of the organisation and the needs of the people it serves.

Our work focused on two areas:

### **The extent to which the joint management arrangements with East Hampshire District Council are delivering value for money**

The Council undertook a review of services as part of the 2010/11 and 2011/12 budget setting process in line with the Council's corporate strategy. For 2010/11 the focus was the implementation of the Joint Management Team (JMT) with East Hampshire District Council allowing both councils to protect front-line services and avoid cutting grants to community organisations.

In 2010/11 the Council successfully implemented the first stage of the JMT arrangements with minimal impact on service provision, and in 2011/12 third tier (service) managers were in place across both councils and detailed savings plans for individual services were emerging. The Council approved a new corporate strategy in 2012 and this confirmed the Council's intention to continue to develop the partnership with East Hampshire District Council, pursuing options to integrate services where it is the most efficient and beneficial option.

Service reviews have been subject to detailed scrutiny by the joint management team to ensure that any proposals will deliver value for money to both Councils, and plans are only implemented once approved. Since its inception, savings attributable to the joint management arrangements across both organisations are approximately £4 million.

More recently, members of East Hampshire District Council have requested they have final sight of business cases for approval. The Council needs to put structures in place to ensure that the momentum of identifying savings and efficiencies through the joint management arrangements is maintained.

### **A review of the Audit Commission's value for money profiles**

The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative performance of an individual entity against a comparator group.

The Audit Commission compares the Council against its statistical nearest neighbour group which identifies the councils which have similarities in population, expenditure, and geographical area. We reviewed the information to identify where the Council were an outlier and identified:

- ▶ the Council was significantly higher than the comparator group for capital expenditure, particularly on expenditure for the construction, conversion and renovation of existing assets. This was in line with expectations due to the work that had been undertaken on developing the Public Service Plaza.

Our review of the profiles did not identify any ratios which were not consistent with our knowledge of the Council.

## 5. Status of our work

### 5.1 Financial statement audit

Our audit work in respect of our opinion on the Council's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation (Appendix B)	To be approved by the Joint Governance Committee on 16 September 2013.	Management and Joint Governance Committee.
Letter of assurance on IAS19 disclosures from the Pension Fund auditor	To be considered once received.	EY

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Council'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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to issue an unqualified value for money conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

### 5.3 Objections

We have received no objections to the Council's 2012/13 financial statements from members of the public to the date of this report.

## 6. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £	Scale fee 2012/13 £
<b>Total Audit Fee – Code work</b>	<b>61,500</b>	61,500
Certification of claims and returns	See note 1	20,400

Our actual fee is in line with the agreed fee.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee.

Note 1: Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13.

## 7. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 19 March 2013. We complied with the Ethical Standards for Auditors and the requirements of the Standing Guidance and 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 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 Joint Governance Committee on 16 September 2013.

## Appendix A Required communications with the Joint Governance Committee

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

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Audit results report for the year ended 31 March 2013
<b>Misstatements</b> <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 for the year ended 31 March 2013
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Understanding how the Joint Governance Committee gains assurance from management letter from Chair of the Joint Governance Committee on 2 August 2013
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <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 for the year ended 31 March 2013
<b>External confirmations</b> <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 communications with the Audit Committee

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 audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	<p>Understanding how the Joint Governance Committee gains assurance from management letter from Chair of the Joint Governance Committee on 2 August 2013</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on Ernst &amp; Young'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 for the year ended 31 March 2013</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>None</p>
<p><b>Opening Balances</b></p> <ul style="list-style-type: none"> <li>▶ Findings and issues regarding the opening balance of initial audits</li> </ul>	<p>Audit results report for the year ended 31 March 2013</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 report for the year ended 31 March 2013</p>
<p><b>Summary of certification work undertaken</b></p> <ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	<p>Annual Certification Report – to be issued January 2014</p>

## Appendix B Request for a letter of representation

Dear Jane

### **Havant Borough Council– 2012/13 financial year Request for a letter of representation**

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- ▶ auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- ▶ auditors are likely to request written representations on the completeness of information provided;
- ▶ auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- ▶ the letter is dated on the date on which the auditor signs the opinion and certificate;
- ▶ the letter is signed by the person or persons with specific responsibility for the financial statements; and
- ▶ the letter is formally acknowledged as having been discussed and approved by the Joint Governance Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following matters.

#### **A. Financial Statements and Financial Records**

1. That you have fulfilled your 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).
2. That you acknowledge your responsibility for the fair presentation of the financial statements. You 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. You have approved the financial statements.
3. You confirm that the Responsible Officer has:
  - ▶ reviewed the accounts;
  - ▶ reviewed all relevant written assurances relating to the accounts; and
  - ▶ made other enquiries as appropriate.

4. That the significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. That you 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**

1. You acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. You have disclosed to us 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**

1. You have disclosed to us 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**

1. You have provided us 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 as agreed in terms of the audit engagement.
  - ▶ Additional information that we have requested from us for the purpose of the audit; and
  - ▶ Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.
2. That all material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. That you have made available to us 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 the following date: 11 September 2013.
4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to us the identity of the Council related parties and all related party relationships and transactions of which you 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. That you have disclosed to us, 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 us and are appropriately reflected in the financial statements.
2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. That you 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 you have given to third parties.

### **F. Subsequent Events**

1. That 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**

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
  - ▶ That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - ▶ That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - ▶ That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - ▶ That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

### **H. Segmental reporting**

1. That you have reviewed the operating segments reported internally to the Board and that you are 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

Request for a letter of representation

### **I. Going Concern**

1. That you have made us 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.

### **J. Specific Representations**

We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated on the proposed audit opinion date, on formal headed paper.

Yours sincerely

Helen Thompson  
Director  
Ernst & Young LLP  
United Kingdom

# Appendix C      Draft Independent Auditor's 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 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes 1 to 42. 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 2012/13.

This report is made solely to the members of Havant Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Officers Responsibilities set out on page 5, 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 2012/13, 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 explanatory foreword to identify material inconsistencies with the audited financial statements. 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 2013 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 2012/13.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword 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 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### **Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

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.

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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 Authority 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 on the specified criteria published by the Audit Commission in November 2012, 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 2013.

**Certificate**

We certify that we have completed the audit of the accounts of Havant Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson

for and on behalf of Ernst & Young LLP, Appointed Auditor

Southampton

XX September 2013

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