

Havant Borough Council

Year ending 31 March 2013

Annual Audit Letter

October 2013



Building a better
working world

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

24 October 2013

Dear Members,

Annual Audit Letter

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

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

2012/13 Audit results report for Havant
Borough Council

Issued 2 September 2013 and presented to
the Joint Governance Committee on 16
September 2013

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

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

Yours faithfully



Helen Thompson
For and behalf of Ernst & Young LLP
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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. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 25 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.

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

As auditors we are responsible for:

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

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

Audit the financial statements of Havant Borough Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 20 September we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 20 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Joint Governance Committee) communicating significant findings resulting from our audit.	On 2 September we issued our report for the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 20 September 2013.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

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

No issues to report.

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

On 20 September 2013 we issued our audit completion certificate.

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

We will issue our annual certification report to those charged with governance in respect of the 2012/13 financial year in December 2013.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 20 September 2013.

Our audit did not identify any material misstatements, and only a small number of presentation and disclosure amendments were required to the financial statements. This demonstrates the robustness of the Authority's closedown and review process for producing the draft financial statements.

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

No audit trail to support a variance between purchase order and invoice

The Authority's financial procedures require an order to be raised for all invoices received. Testing undertaken by Internal Audit highlighted that when an invoice is received where no purchase order exists the Authority retrospectively raises a corresponding order.

Whilst our testing did not identify any material misstatements due to inappropriate authorisation of transactions, the Authority should ensure there is an adequate audit trail to evidence variances between purchase orders and invoices.

No audit trail provided to support a contract variation

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

In addition, when undertaking our walkthrough of the Authority's payroll system, a number of documents could not be provided to support three amendments that were made to the payroll masterfile.

Whilst our extended testing did not identify any material misstatements or inappropriate payments made, evidence to support changes to the payroll masterfile should be retained by the Authority.

2.2 Value for money conclusion

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

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

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

We issued an unqualified value for money conclusion on 20 September 2013.

Our audit did not identify any significant matters.

2.3 Objections received

We did not receive any objections to the Authority's 2012/13 financial statements from members of the public.

2.4 Whole of government accounts

On 20 September 2013 we reported to the National Audit Office the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

We did not identify any areas of concern.

2.5 Annual governance statement

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

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

2.6 Certification of grants claims and returns

We will issue our annual certification report to those charged with governance for the work we carry out on grant claims and returns for the 2012/13 financial year in December 2013.

3. Control themes and observations

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

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

Description	Impact
<p>When testing the Authority'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>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 Authority should ensure that all income and expenditure is accounted for on an accruals basis.</p>
<p>The Prudential Code requires the Authority 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 Authority. A difference, and possible over provision, of £251,000 in the Authority'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 Authority should investigate this difference for the 2013/14 financial statements audit.</p>

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