

Test Valley Borough Council  
Audit results report

Year ended 31 March 2017

Private and Confidential

14 September 2017

Dear Audit Panel and General Purposes Committee Members

We have substantially completed our audit of Test Valley Borough Council for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form that appears in Section 3 before the deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Panel and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Maria Grindley  
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

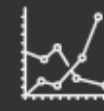
# Contents

**01** Executive Summary

**02** Areas of audit focus

**03** Audit Report

**04** Audit Differences



**05** Value for Money

**06** Other Reporting Issues

**07** Control Environment observations

**08** Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Panel and General Purposes Committee, other members of the Authority and management of Test Valley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Panel and General Purposes Committee, other members of the Authority and management of Test Valley Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Panel and General Purposes Committee, other members of the Authority and management of Test Valley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

# Executive Summary



## Executive Summary

### Executive summary

#### Overview of the audit

#### Scope and materiality

In our Audit Plan presented to the March 2017 Audit Panel meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £1.358 million. We reassessed this using the actual year-end figures, which have increased this amount to £1.396 million. The threshold for reporting audit differences has increased from £67,900 to £69,800. The basis of our assessment of materiality has remained consistent with our Audit Plan at 2 % of gross revenue expenditure.

#### Status of the audit

We have substantially completed our audit of Test Valley Borough Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- review of work completed on a small number of areas of substantive testing;
- completion of subsequent events review; and
- receipt of the signed management representation letter.



## Executive Summary

---

### Executive summary (continued)

#### Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

#### Objections

We have received no objections to the 2016/17 accounts from members of the public.

#### Audit differences

There are no unadjusted audit differences arising from our audit

We identified a small number of audit differences which have been adjusted by management. These were principally in relation to disclosures and none are considered individually of sufficient significance to warrant reporting here.



## Executive Summary

### Executive summary (continued)

#### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Test Valley Borough Council's financial statements. This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in Section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- there are no other considerations or matters that could have an impact on these issues;
- you agree with the resolution of the issue; and
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Panel and General Purposes Committee.

#### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified the following significant risk:

- Informed decision making and sustainable resource deployment – procurement of a new contract for the provision of leisure services.

On completion of our work, we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



## Executive Summary

---

### Executive summary (continued)

#### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no inconsistencies to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

#### Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

#### Independence

Please refer to Appendix B for our update on Independence. There are no issues that we need to report.

We would like to take this opportunity to thank management and the staff at Test Valley Borough Council for their assistance over the period of the audit.





02

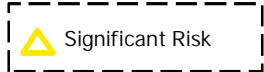
## Areas of Audit Focus



## Areas of Audit Focus

# Audit issues and approach: Risk of management override

### Management override



#### What is the risk?

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.

#### What did we do?

We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We reviewed accounting estimates for evidence of management bias.

We evaluated the business rationale for significant unusual transactions.

We have reviewed and tested transactions shown in the Movement in Reserves Statement

#### What are our conclusions?

We have not identified any evidence of management override. We did not identify any errors in the financial statements or indications of fraud. We did not identify any inappropriate journal entries (or other adjustments) that impacted on the financial statements.

We have not identified any instances of inappropriate judgements being applied in making estimates. We gave specific consideration to bad debt provisions.


We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.

We did not identify any indications of management override through our testing of the Movement in Reserves Statement.



# Audit issues and approach: Expenditure Funding Analysis

## Expenditure and Funding Analysis and Comprehensive income and expenditure statement

 Other non-significant Risk

### What is the risk?

Amendments were made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expected this to show the Council's segmental analysis.

This change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

### What did we do?

We reviewed the 'Expenditure and Funding Analysis', CIES, MiRS and new notes to ensure disclosures are in line with the Code.

We reviewed the working papers supporting the derivation of these figures, how the ledger system has been re-mapped to reflect the Council's organisational structure, and how overheads are apportioned across the service headings reported.

We agreed the restated comparative figures back to the Council's segmental analysis, supporting working papers and ledger.

### What are our conclusions?

The disclosures made were generally in line with the Code. We have identified a small number of presentational changes and additional disclosures that management have agreed to make in the final statement of accounts. The main points identified were the need to add a narrative note explaining the prior period adjustments resulting from the Telling the Story changes, and to show prior period comparators as "restated".

We have reviewed the working papers supporting the derivation of these figures, how the ledger system has been re-mapped to reflect the Council's organisational structure, and how overheads are apportioned across the service headings. We have no matters to report. Good quality working papers were provided which allowed us to understand the manual process undertaken to format data from the ledger in line with the new presentation of the financial statements for 2016/17.

We have agreed the restated comparative figures back to the Council's supporting working papers and ledger.



# 03 Audit Report



# Audit Report

---

## Draft audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEST VALLEY BOROUGH COUNCIL

#### Opinion on the Authority's financial statements

We have audited the financial statements of Test Valley Borough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement; Movement in Reserves Statement; Balance Sheet; Cash Flow Statement; related notes 1 to 38 and the Expenditure and Funding Analysis; and the Collection Fund and the related notes.

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 2016/17.

This report is made solely to the members of Test Valley 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 Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance's Responsibilities set out on page 8, the Head of Finance 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 2016/17, 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 Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 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.



# Audit Report

---

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Test Valley Borough Council as at 31 March 2017 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 2016/17.

## Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 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 Test Valley 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.



# Audit Report

---

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 in November 2016, as to whether Test Valley Borough 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 Test Valley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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, Test Valley Borough 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 Comptroller and Auditor General in November 2016, we are satisfied that, in all significant respects, Test Valley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

## Certificate

We certify that we have completed the audit of the accounts of Test Valley 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.

Maria Grindley (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Reading  
xx September 2017

The maintenance and integrity of the Test Valley Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## 04 Audit Differences





## Audit Differences

### Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as '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.

#### Summary of adjusted differences

We have included all known amounts greater than our calculated "performance materiality" (as set out in the International Standards on Auditing) relating to Test Valley Borough Council in our summary of misstatements below. We have set performance materiality at £1.047m, which is 75% of our headline materiality of £1.396m, and is based on an assessment of risk in relation to the financial statements.

We identified no misstatements above this threshold. We identified a small number of disclosure errors, all of which have been corrected by management.

#### Summary of unadjusted differences

There are no unadjusted audit differences above £69,800.

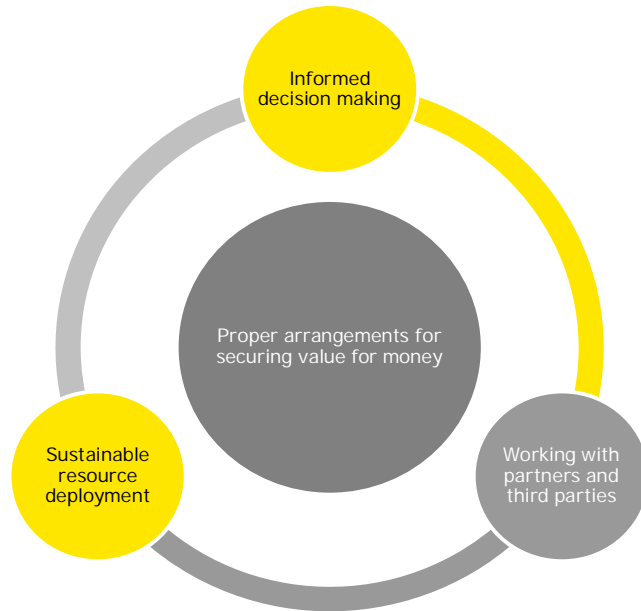


# 05 Value for Money



# Value for Money

## Value for Money



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your 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.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion

We identified one significant risk to these arrangements. The section below presents our findings in response to the risk in our Audit Plan.

We expect to have no matters arising to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



# Value for Money

## VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined 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”*  
Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.  
The section below presents the findings of our work in response to the risks areas in our Audit Plan.

### What is the significant VFM risk?

The procurement of a new contract for the provision of leisure services.

### What arrangements did this affect?

Informed decision making

### Background

During 2016/17, the Council has undertaken a process to let a new long-term contract for the provision of leisure services in the Test Valley area. The contract will run for 30 years from 1 April 2017 and will include significant investment to improve the Borough’s leisure facilities.

The contract award was made in November 2016 and will see Places for People taking over the running of these services from the previous provider, Valley Leisure.

As a significant and high value contract, there is a need to ensure a robust process for the financial planning and implications around the contract.



# Value for Money

## Our audit approach

Our approach focused on:

- Reviewing the financial plans underpinning the contract and its financial impact; and
- Reviewing the robustness of arrangements around the transition between providers.

## What are our findings?

We have held discussions with the Head of Finance to understand the contract procurement process and matters arising in relation to the transition between providers.

We have reviewed all committee papers pertaining to the leisure contract to further understand the contract award process, and the information provided to members to allow them to make informed decisions. This has furthermore allowed us to review the robustness of arrangements around the transition between providers and how issues relating to this element of the process were addressed.

We have reviewed the revenue projections and capital financing plans underpinning the contract, to understand its impact on the Council's future financial position and how this is being factored into the Council's medium term financial plans

No significant weaknesses in arrangements have been identified. From the evidence provided we concluded that officers maintained robust processes to inform members of developments and seek their approval at all key stages of the contract award process. The Council made appropriate use of external advisors and internal staff in establishing and running the tendering and contract evaluation processes. Some difficulties were encountered in the handover from the old provider to the successful bidder; these were dealt with reasonably given the realities of the situation. The new contract is forecast to bring significant net revenue benefit to the Council over its 30 year life, and as such is expected to strengthen the Council's overall financial position in the medium and longer term. This will need to be kept under review in the coming years as the contract is implemented.

As a result of the work undertaken, our value for money conclusion for 2016/17 will be unmodified.



06

## Other reporting issues



## Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Financial Statements 2016/17 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Financial Statements 2016/17 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### 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, is specified by the National Audit Office.

We have no issues to report with regard to your Whole of Government Accounts return.



## Other reporting issues

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any relevant issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have not noted any issues relating to the above areas.





# Control Environment observations



# Assessment of Control Environment

## Control environment observations

### Financial controls

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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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. We have adopted a fully substantive approach other than for housing benefits, and have therefore not tested the operation of controls of your other financial systems.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



8

Appendices



## Appendix A

# Required communications with the Audit Panel and General Purposes Committee

There are certain communications that we must provide to the audit committees of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Panel and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> </ul>	September 2017 Audit Results Report
Going concern	<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>	No conditions or events were identified, either individually or together to raise any doubt about Test Valley Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<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>▶ Significant corrected misstatements, in writing</li> </ul>	September 2017 Audit Results Report







# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the General Purposes Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:                             <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to General Purposes Committee responsibility.</li> </ul>	We have asked management and the Chairman of the General Purposes Committee about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the General Purposes Committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	We have no matters to report.
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>▶ Asking the General Purposes Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the General Purposes Committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.



# Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY’s objectivity and independence.</p> <p>Communicating 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 on the firm’s general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	March 2017 Audit Plan  September 2017 Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	March 2017 Audit Plan  September 2017 Audit Results Report
Certification work	Summary of certification work	Certification Report (due early 2018)



## Appendix B

# Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan taken to the March 2017 Audit Panel.

We complied with the APB Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meetings of the Audit Panel on 21 September 2017 and the General Purposes Committee on 27 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee - Code work	52,830	52,830	52,830	52,830
Certification of claims and returns	11,210 <sup>a</sup>	14,012	10,980 <sup>b</sup>	9,042
Total	64,040	66,842	63,810	61,872

<sup>a</sup>We have agreed that the Council will perform some of the initial Housing Benefit certification testing itself in 2016/17. This is in return for an approximate 20% reduction in our fee. We will do sufficient checking to satisfy ourselves that this testing has been performed appropriately.

<sup>b</sup>In our 2015/16 certification report, we informed you that we had raised an additional fee for additional work performed in certifying the 2015/16 housing benefit subsidy claim. This additional fee was agreed with management and PSAA.



## Appendix C

# Accounting and regulatory update

Name	Summary of key measures	Impact on Test Valley Borough Council
<p>Earlier statutory deadline for production and audit of the financial statements from 2017/18</p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown;</li> <li>• As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales; and</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017.</li> </ul> <p>To prepare for this change both we and the Council have targeted achievement of the earlier completion of work in 2016/17. This clearly represents significant progress.</p> <p>Moving forward, we will need to continue to work together collaboratively to ensure the necessary changes are made to working practices both at the Council and among the audit team, to ensure the new statutory deadlines are met in 2017/18.</p>





## Appendix C

<p>IFRS 16 Leases</p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>
-----------------------	---	--



## Appendix D

# Draft management representation letter

[To be prepared on the entity's letterhead]

27 September 2017

Maria Grindley  
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 Test Valley Borough Council (“the Council”) for the year ended 31 March 2017. 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 financial position of Test Valley Borough Council as of 31 March 2017 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 2016/17.

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

1. 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 2016/17.
2. 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 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.



## Appendix D

4. 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 2016/17, that are free from material misstatement, whether due to fraud or error.

There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### 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 disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

### 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 Cabinet (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:
  - Full Council – 06 September 2017
  - Cabinet – 13 September 2017



## Appendix D

---

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 period 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 all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

### F. Subsequent Events

1. Other than as described in Note 37 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. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### H. Comparative information – corresponding financial information

1. There have been changes to the structure of the Financial Statements during 2016/17 with the introduction of the Expenditure and Funding Analysis (EFA). The financial statements for 15/16 have been restated to incorporate these changes. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.



## Appendix D

---

### I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### J. Estimates

#### Valuation of property, plant and equipment, and valuation of pension fund liability

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the estimate of the valuation of property, plant and equipment, and valuation of pension fund liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

---

Will Fullbrook

(Head of Finance and Section 151 Officer)



## Appendix D

---

I confirm that this letter has been discussed and agreed at the General Purposes Committee on 27 September 2017

\_\_\_\_\_  
Councillor I Hibberd

(Chair of the General Purposes Committee)

EY | Assurance | Tax | Transactions | Advisory

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2017 EYGM Limited.

All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)