

## Notice of Meeting

# General Purposes Committee

**Date:** Wednesday, 18 April 2018

**Time:** 16:00

**Venue:** Conference Room 1, Beech Hurst, Weyhill Road, Andover,  
Hampshire, SP10 3AJ

**For further information or enquiries please contact:**

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**Legal and Democratic Service**

Test Valley Borough Council,  
Beech Hurst, Weyhill Road,  
Andover, Hampshire,  
SP10 3AJ

[www.testvalley.gov.uk](http://www.testvalley.gov.uk)

The recommendations contained in the Agenda are made by the Officers and these recommendations may or may not be accepted by the Committee.

**PUBLIC PARTICIPATION SCHEME**

*If members of the public wish to address the meeting they should notify the Legal and Democratic Service at the Council's Beech Hurst office by noon on the working day before the meeting.*

## Membership of General Purposes Committee

### MEMBER

Councillor I Hibberd

Councillor K Hamilton

Councillor N Adams-King

Councillor G Bailey

Councillor A Dowden

Councillor M Flood

Councillor P Giddings

Councillor P Hurst

Councillor I Jeffrey

Councillor C Lynn

Councillor P North

### WARD

Chairman

Vice Chairman

Romsey Extra

Harroway

Blackwater

Blackwater

Valley Park

Anna

Bourne Valley

Tadburn

Dun Valley

Winton

Alamein

# **General Purposes Committee**

Wednesday, 18 April 2018

## **AGENDA**

**The order of these items may change as a result of members  
of the public wishing to speak**

- 1 Apologies**
- 2 Public Participation**
- 3 Declarations of Interest**
- 4 Urgent Items**
- 5 Minutes of the meeting held on 27 September 2017**
- 6 Minutes of the Employment Appeals and Ethics Sub-Committee held on 17 January 2018 and 29 March 2018**
- 7 External Audit: Audit Planning Report 2017/18 4 - 52**

To consider and approve the External Auditors' audit planning report for the year ended 31 March 2018.

## **ITEM 7            External Audit: Audit Planning Report 2017/18**

Report of the Head of Finance

### **Recommended:**

**That the proposed external audit plan for 2017/18 be approved.**

#### **SUMMARY:**

- This report presents the External Auditors' audit planning report for the year ended 31 March 2018.

### **1            Introduction**

- 1.1 The purpose of the attached report (Annex) is to receive a report from the external auditors, Ernst and Young LLP, setting out the auditors' responsibilities and the proposed audit approach and scope for the 2017/18 audit.
- 1.2 The plan summarises the initial assessment of the key risks driving the development of the effective audit for the Council, and outlines the planned audit strategy in response to those risks.

### **2            Background**

- 2.1 The Council's external auditors have requested that the General Purposes Committee are made aware of the audit plan content and the risks they are raising in relation to the financial statements that the Committee will ultimately consider for approval on 30 July 2018.

### **3            Consultations/Communications**

- 3.1 The audit plan has been considered and noted by the Audit Panel at its meeting on 12 March 2018.

### **4            Conclusion**

- 4.1 This report forms part of the independent external audit review process. The General Purposes Committee is recommended to approve the 2017/18 audit plan which includes an analysis of key risks, the audit strategy, reporting and timescales.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	
(Portfolio: Finance) Councillor Giddings			
Officer:	Will Fullbrook	Ext:	8201
Report to:	General Purposes Committee	Date:	18 April 2018

Test Valley Borough  
Council  
Audit planning report  
Year ended 31 March 2018

1<sup>st</sup> March 2018

1<sup>st</sup> March 2018

Private and Confidential

Audit Panel and General Purposes Committee  
Test Valley Borough Council  
Beech Hurst, Weyhill Road  
Andover, Hampshire  
SP10 3AJ

Dear Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide those charged with governance with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the service expectations of those charged with governance.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. This report is intended solely for the information and use of those charged with governance and management, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the feedback on our report structures, pictures and font. Our reports are based on templates to ensure consistency of brand so whilst we have not been able to change the format of the report we have ensured that font 12 has been used throughout as we understand this is a specific request from the Council. This report is for the attention of those charged with governance and in relation to the financial statements approval we understand this to be the General Purposes Committee. We understand the Audit Panel has the role to review external audit reports and as such we welcome the opportunity to discuss this report with you at the Audit Panel on 12<sup>th</sup> March 2018 as well as understand whether there are other matters which you consider may influence our audit. Following this, our plan will be taken to the General Purposes Committee.

Yours faithfully

Maria Grindley

For and on behalf of Ernst &amp; Young LLP

Enc

01 Overview of our 2017/18 audit strategy

02 Audit risks

03 Value for Money Risks

04 Audit materiality

05 Scope of our audit

06 Audit team

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08 Independence

09 Appendices



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from 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 those charged with governance 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 those charged with governance 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 those charged with governance 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 our prior written consent.



01

# Overview of our 2017/18 audit strategy





## Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide those charged with governance with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to management override	Fraud risk/ Significant risk	No change in risk	As identified in ISA 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 would otherwise appear to be operating effectively.
Financial Statements presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement	Area of Focus	No change in focus	Test Valley Borough Council's internal reporting structure changed during 2017/18, with the Planning, Policy and Transport line being reclassified to Estates and Economic Development and Corporate and Support. The classifications on the Expenditure and Funding Analysis and of the Comprehensive Income and Expenditure Statement will need to reflect the new reporting structure, both for 2017/18 and for 2016/17 amounts. <a href="#">Page 11 of 52</a>

## Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide those charged with governance with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Financial accounting for the new leisure centre and temporary pool	Area of Focus	New focus	The year end statement of accounts could include a partial disposal of the old building; a remaining part of the old building still in use; assets under construction to reflect the cost of work so far on the new building; and rental payments of some £800,000 on the temporary pool. The accounting treatment will need to be carefully considered.
Valuation of Land and Buildings	Inherent risk	No change in risk	The fair value of Property, Plant and Equipment and Investment Properties represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

## Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide those charged with governance with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation	Inherent risk	No change in risk	Accounting for the pension scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Earlier deadline for production of the financial statements	Area of focus	New focus	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial 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 accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements.

## Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide those charged with governance with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Materiality

Planning  
materiality

£1.4m

Materiality has been set at £1.4m, which represents 2% of the prior years net operating expenditure.

Performance  
materiality

£1m

Performance materiality has been set at £1m, which represents 75% of materiality.

Audit  
differences

£70k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £70,000. Other misstatements identified will be communicated to the extent that they merit the attention of those charged with governance.

## Overview of our 2017/18 audit strategy

### Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- § Our audit opinion on whether the financial statements of Test Valley Borough Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- § Strategic, operational and financial risks relevant to the financial statements;
- § Developments in financial reporting and auditing standards;
- § The quality of systems and processes;
- § Changes in the business and regulatory environment; and,
- § Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

### Audit team changes

Key changes to our team.

Manager

Jo Taylor has taken on the manager role from David White, your previous audit manager. Jo has twelve years government and public sector audit experience.



## 02 Audit risks





## Audit risks

### Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p>Risk of fraud in revenue and expenditure recognition*</p> <p><i>31 March 2017 balances:</i>            Net debtors: £8,574,000            Creditors: £24,865,000            Provisions: £1,725,000</p>	<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review and test revenue and expenditure recognition policies;</li> <li>• Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;</li> <li>• Develop a testing strategy to test material revenue and expenditure streams;</li> <li>• Review and test revenue cut-off at the period end date;</li> <li>• Review in-year financial projections and compare them to year-end position; and</li> <li>• Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>

## Audit risks

### Our response to significant risks (continued)

	What is the risk?	What will we do?
<p>Misstatements due to fraud or error – management override*</p> <p><i>31 March 2017 balances:</i>            Net debtors: £8,574,000            Creditors: £24,865,000            Provisions: £1,725,000            Property, Plant and Equipment: £65,091,000</p>	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Identify fraud risks during the planning stages;</li> <li>• Ask management about risks of fraud and the controls put in place to address those risks;</li> <li>• Understand the oversight given by those charged with governance of management's processes over fraud;</li> <li>• Consider the effectiveness of management's controls designed to address the risk of fraud;</li> <li>• Determine an appropriate strategy to address those identified risks of fraud;</li> <li>• Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements; and</li> <li>• Consider any changes in accounting policies and the proposed accounting treatments for any new capital projects (for example, the new leisure centre).</li> </ul>

## Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the area of focus?	What will we do?
<p>Financial Statements presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement</p> <p>Test Valley Borough Council’s internal reporting structure changed during 2017/18, with the Planning, Policy and Transport line being reclassified to Estates and Economic Development and Corporate and Support. The classifications on the Expenditure and Funding Analysis and of the Comprehensive Income and Expenditure Statement will need to reflect the new reporting structure, both for 2017/18 and for 2016/17 amounts.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review proposed changes to the format of accounts during the interim audit visit;</li> <li>• Confirm that the prior year reclassification is correctly disclosed; and</li> <li>• Test correctness extraction from the ledger and consistency of that extraction with the internal reporting structure for all other items on the Income Statement and Expenditure and Funding Analysis.</li> </ul>
<p>Financial accounting for the new leisure centre and temporary pool</p> <p>The Council is part way through a project to construct a new Leisure Centre. A temporary swimming pool has been installed for the construction period. At the time of writing this report, it was expected that the year end statement of accounts could include a partial disposal of the old building; a remaining part of the old building still in use; assets under construction to reflect the cost of work so far on the new building; and rental payments of some £800,000 on the temporary pool. Formal valuation of any part of the old or new building in use at year end is not expected to be available until our final audit visit, although a proposed map of accounting treatments is expected to be available earlier.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review proposed accounting treatment, including proposed basis of recognition and valuation, in detail during our interim audit;</li> <li>• Test the correctness of allocations between capital and revenue spending (particularly for the temporary pool) in detail during our interim audit; and</li> <li>• Consider work performed by the Council’s valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work during our final audit.</li> </ul>

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the area of focus?

Valuation of Other Land and Buildings and Investment Properties

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts. At 31 March 2017, they totalled £65,091,000 and £97,062,000 respectively. The balances are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### What will we do?

We will:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code and annually for IP. We will consider any specific changes to assets and how this is communicated to the valuer;
- Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the area of focus?	What will we do?
<p><b>Pension Liability Valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £55,900,000. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Test Valley Borough Council;</li> <li>• Assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and</li> <li>• Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> </ul>

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the area of focus?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial 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 accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council could include complex areas of accounting (such as the leisure centre) being time-pressured; slippage in delivering data for analytics work in format and to time required; and managing a new timetable for internal quality assurance arrangements.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

#### What will we do?

We are working with the Council to address these challenges, for example:

- Working to a new timetable for Audit Panel and General Purposes Committee papers;
- Requesting detailed accounting papers on the new leisure centre and temporary pool and the impact of changes to the Expenditure and Funding Analysis and Income Statement at interim audit;
- Bringing forward our audit of other Property, Plant and Equipment and Investment Property valuations; and
- Testing data for ten months instead of nine months during our interim audit visit.

## Audit risks

### Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the area of focus?

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the start of the final audit visit (25th June 2018);
- appropriate Council staff to be available throughout the agreed interim and final audit periods (two weeks commencing 26th February and three weeks commencing 25th June respectively); and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

#### What will we do?

We are working with the Council to address these challenges, for example:

- Working to a new timetable for year end Audit Panel and General Purposes Committee papers (25<sup>th</sup> July and 30<sup>th</sup> July respectively);
- Requesting detailed accounting papers on the new leisure centre and temporary pool and the impact of changes to the Expenditure and Funding Analysis and Income Statement at interim audit;
- Bringing forward our audit of other Property, Plant and Equipment and Investment Property valuations; and
- Testing data for ten months instead of nine months during our interim audit visit.



03

# Value for Money Risks





## Value for Money

### Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2017/18 this is based on the overall evaluation criterion:

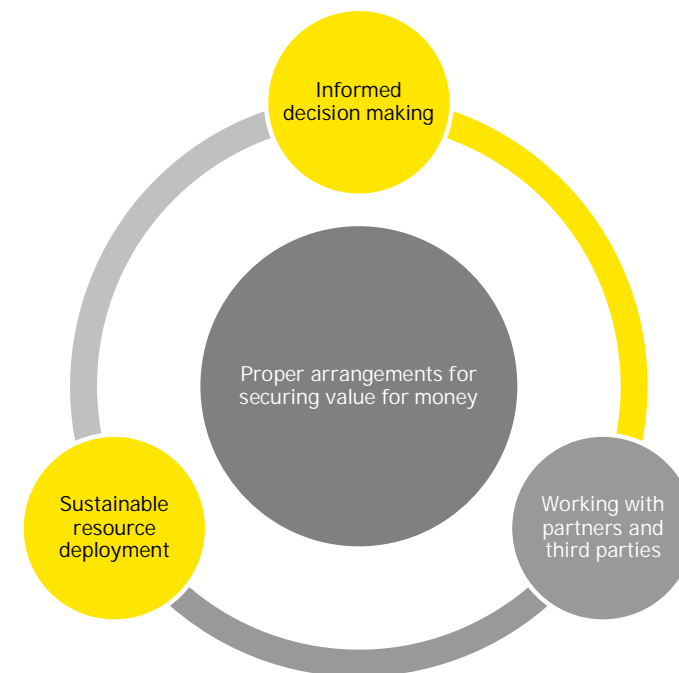
"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

In the diagram to the right the centre circle 'Proper arrangements for securing value for money' refers to proper arrangements which are defined by statutory guidance issued by the National Audit Office. They comprise the three areas included in each of the outer circles i.e. 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 draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:



## Value for Money

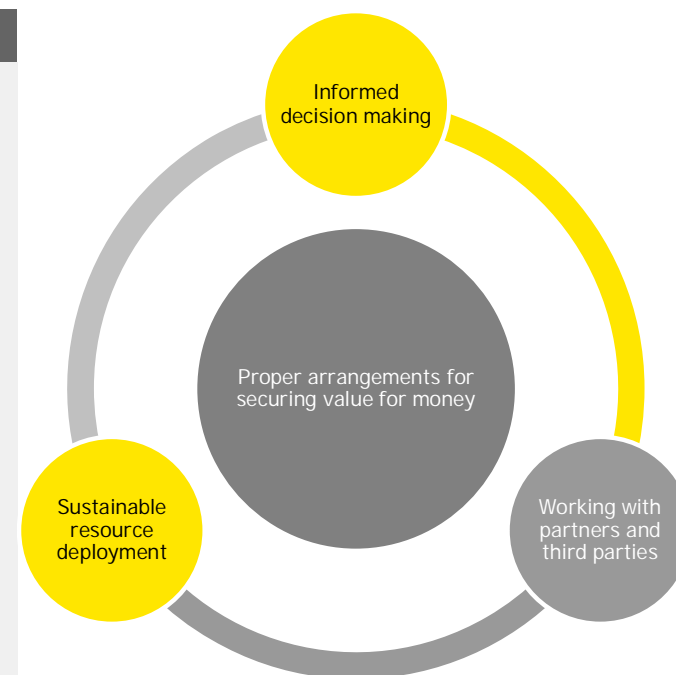
### Background

"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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks.

We note that in 2016/17, although we identified no significant weaknesses with a new contract for the long term provision of leisure services, we noted that forecast revenue benefits under that contract should be monitored over the life of the contract. Whilst no significant risks have been identified this year, we will update our understanding of those forecasts as part of our 2017/18 procedures.



04

# Audit materiality



## Audit materiality

# Materiality

### Materiality

For planning purposes, materiality for 2017/18 has been set at £1.4m. This represents 2% of the Council's prior year net operating expenditure as this is the measure we consider of highest interest to the users of the accounts. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that those charged with governance confirm their understanding of, and agreement to, these materiality and reporting levels.

## Audit materiality

# Materiality

### Materiality

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at 1m which represents 75% of planning materiality. This reflects our experience that draft accounts have in previous been of a reasonable quality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, movement in reserves statement and collection fund.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of those charged with governance, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £1 for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

05

## Scope of our audit



## Scope of our audit

# Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

## Scope of our audit

# Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our initial assessment of the key processes across the Council has identified the following key processes where we may seek to rely on controls: Housing benefits. In all other areas, for 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.





06

## Audit team



 Audit team

## Audit team

## Audit team structure:



\* Key Audit Partner

## Audit team

### Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Gerald Eve and EY Valuations Team
Pensions disclosure	PWC and EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

# Audit timeline



## Audit timeline

### Timetable of communication and deliverables

#### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with those charged with governance and we will discuss them with the Audit Panel and General Purposes Committee Chairs as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Deliverables
Planning: Risk assessment and setting of scopes.	October 2017	
Walkthrough of key systems and processes	December 2017	
Interim audit visit	Two weeks commencing 26 February 2018	
Audit Panel	12 March 2018	Audit Planning Report and verbal update on interim audit findings
Final audit visit	Three weeks commencing 25 June 2018	
Audit Panel	25 July 2018	Audit Results Report
General Purposes Committee	30 July 2018	Audit Results Report, Accounts signature and certification
Annual Audit Letter	August 2018	

08

# Independence





# Independence

## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

 Independence

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In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.



## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services were planned. No additional safeguards were required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

## Relationships, services and related threats and safeguards

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

### EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>



09

Appendices



 Appendix A

## Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	52,830	52,830	52,830
Total audit	52,830	52,830	52,830
Other non-audit services not covered above (Housing Benefits)	10,980	13,220	14,012
Total other non-audit services	10,980	10,980	13,220
Total fees	63,810	66,050	66,842
<i>All fees exclude VAT</i>			

 Appendix A

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## Fees

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

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

We note that the 2016/17 non-audit services fee of £13,220 has been agreed with Test Valley Borough Council but is subject to agreement with the PSAA and reflects on-going savings in audit time as a result of initial testing conducted by the Council.

 Appendix B

## Regulatory update

In previous reports to the Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:



Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	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.
Impact on Test Valley Borough Council	<p>These changes provide challenges for both the preparers and the auditors of the financial statements. As notes earlier in this report, we are working with the Council to address these challenges, for example:</p> <ul style="list-style-type: none"> <li>• Working to a new timetable for Audit Panel and General Purposes Committee papers</li> <li>• Requesting detailed accounting papers on the new leisure centre and temporary pool and the impact of changes to the Expenditure and Funding Analysis and Income Statement at interim audit</li> <li>• Bringing forward our audit of other Property, Plant and Equipment and Investment Property valuations</li> <li>• Testing data for ten months instead of nine months data during our interim audit visit.</li> </ul>

## Appendix C

# Required communications with the Audit Committee



We have detailed the communications that we must provide to those charged with governance.

## Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by those charged with governance 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.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report
Significant findings from the audit	<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> </ul>	Audit results report

 Appendix C





## Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	 When and where
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>	Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of those charged with governance 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>	Audit results report
Related parties	<ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <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







 Appendix C

## Required communications with the Audit Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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>	Audit Planning Report and Audit Results Report
External confirmations	<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>	Audit results report
Consideration of laws and regulations	<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 those charged with governance into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that those charged with governance may be aware of</li> </ul>	Audit results report
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	Management letter/audit results report

 Appendix C

## Required communications with the Audit Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>• Key audit matters that we will include in our auditor's report</li> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>• Breakdown of fee information when the audit plan is agreed</li> <li>• Breakdown of fee information at the completion of the audit</li> <li>• Any non-audit work</li> </ul>	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

 Appendix D

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- § Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- § Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- § Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- § Concluding on the appropriateness of management's use of the going concern basis of accounting.
- § Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- § Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, reporting to those charged with governance appropriately addresses matters communicated by us to those charged with governance and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- § Maintaining auditor independence.

 Appendix D

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.