



Audit Panel and General Purposes Committee

18 July 2018

Dear Members

We are pleased to attach our audit results report for the forthcoming meetings of the Audit Panel and General Purposes Committee (those charged with governance). This report summarises our preliminary audit conclusion in relation to the audit of Test Valley Borough Council for 2017/18. We will issue our final report at the General Purposes Committee meeting scheduled for 30 July 2018.

We have substantially completed our audit of Test Valley Borough Council for the year ended 31 March 2018. 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 at Section 4, before the statutory deadline of 31 July 2018. 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 welcome the opportunity to discuss the contents of this report with you at the Audit Panel on 25 July 2018 and at the General Purposes Committee on 30 July 2018.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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). 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.





Scope update

In our audit planning report presented at the Audit Panel meeting on 1 March 2018, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

• Change in materiality: In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.4M. We updated our planning materiality assessment using the draft year end results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.5M. This results in updated performance materiality, at 75% of overall materiality, of £1.1M, and an updated threshold for reporting misstatements of £75,000.

Status of the audit

We have substantially completed our audit of Test Valley Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- 1. Provisions and contingencies testing.
- 2. Pensions and reserves testing.
- 3. Debtors testing.
- 4. Journals testing.
- 5. Completion of work on PPE.
- 6. Review of revised draft account; review of the revised account and test back to the ledgers; and overall analytical review of the revised account.
- $7. \quad \text{Audit Manager and Associate Partner completion review of outstanding areas and working papers}.$
- 8. Completion of subsequent events review.
- 9. Receipt of the signed management representation letter.

Audit differences

At the time of writing this report, there are no adjusted audit differences arising from our audit.

There is one unadjusted audit difference in relation to the value of pension fund assets of £512,629. This is not material and relates to the fact that there was an estimate for the asset value of the fund provided and used appropriately in the financial statements. Subsequently, the asset value at 31 March 2018 is known and the difference for the fund is an increase of approximately £31m and the unadjusted audit difference relates to the Council's share of this.



Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Test Valley Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report. They comprise:

- Ø Risk of fraud in revenue and expenditure recognition;
- Ø Misstatements due to fraud or error management override;
- Ø Financial Statements presentation Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement;
- Ø Financial accounting for the new leisure centre and temporary pool;
- Ø Valuation of Land and Buildings;
- Ø Pension Liability Valuation; and
- Ø Earlier deadline for production of accounts.

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

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

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

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.

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



Other reporting issues

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

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. There are no issues arising from this work.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.





Understanding Financial Statements

Understanding Financial Statements

The Authority's Net Assets at 31 March 2018 were valued at £157,284,000, The main balances within these net assets were:

Property, Plant and Equipment: £67,057,000

Investment Properties: £106,836,000

Long Term Debtors and Investments: £18,105,000

NET Current Assets: £23,666,000

Pension Liability: £58,520,000.

We note that net operating expenditure increased during the year by £8,014,000 from £14,437,000 in 2016/17 to £22,451,000 in 2017/18.

Key drivers behind this increase included:

Ø Loss on disposal of Property, Plant and Equipment: £4,470,000 (compared to profit on disposal in 2016/17 of £878,000); and

Ø Increased Community and Leisure Costs: £2,870,000.





Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the 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.

Which areas of judgements are we focused on?

We focused on:

- areas of revenue and expenditure recognition which involve significant estimates, which have a higher risk of management bias:
- cut-off procedures, to ensure income and expenditure is recorded in the correct year:
- forecast projection comparison with year-end actual

What did we do?

We:

- Reviewed and tested revenue and expenditure recognition policies;
- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- Developed a testing strategy to test material revenue and expenditure streams;
- Reviewed and tested revenue cut-off at the period end date;
- Reviewed in-year financial projections and compared them to year-end position; and
- Reviewed capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition to date - we will update you once our work is complete.

Overall our audit work has not identified any material issues or unusual transactions to date to indicate any misreporting of the Council's financial position.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error management override

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

Which areas of judgements are we focused on?

We focused on those balances that could be susceptible to management override of controls. including debtors, creditors, provisions, property, plant and equipment and investment property.

What did we do?

We:

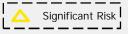
- Identified fraud risks during the planning stages;
- Asked management about risks of fraud and the controls put in place to address those risks;
- Understood the oversight given by those charged with governance of management's processes over fraud:
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Determined an appropriate strategy to address those identified risks of fraud;
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements:
- Confirmed there had been no changes in accounting policies; and
- Reviewed the accounting treatment for the new capital projects (the new leisure centre).

What are our conclusions?

Our work is being completed but so far we have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

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



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 was the area of focus?

Financial Statements presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement

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. Reclassifications on the Expenditure and Funding Analysis and of the Comprehensive Income and Expenditure Statement were need to reflect the new reporting structure, both for 2017/18 and for 2016/17 amounts.

Financial accounting for the new leisure centre and temporary pool 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.

What did we do?

We:

- Reviewed proposed changes to the format of accounts during the interim audit visit;
- Confirmed that the prior year reclassification is correctly disclosed; and
- Tested 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.

Findings: We did not identify any matters to report to you.

We:

- Reviewed proposed accounting treatment, including proposed basis of recognition and valuation, in detail during our interim audit;
- Tested the correctness of allocations between capital and revenue spending (particularly for the temporary pool) in detail during our interim audit; and
- Considered 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.

Findings:

At 31 March 2017, the Andover Leisure Centre's land and buildings had been valued at £8,335,092. We noted that disposals of £8,172,092 were written-off as the old building was demolished and that the remaining elements were revalued to £163,000 at 31 March 2018. This was one of the assets that our real estate valuers tested the year end valuation for in detail.

Our specialists challenged the assumptions underpinning land values used in the year end valuation and the way that a restrictive covenant had been reflected in the land valuation. Our specialist worked with the in-house valuers to confirm that this issue was not replicated across the wider population of land and buildings revalued in year and this was confirmed not to be the case.

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 was the area of focus?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts. At 31 March 2018, they totalled £67,057,000 (31 March 2017: £65,091,000) and £106,836,000 (31 March 2017: £97,062,000) respectively. Movements during 2017/18 included valuation changes, impairment reviews and depreciation charges as well as additions and disposals. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do?

We obtained a schedule of PPE and IP assets revalued during the year and agreed revaluations recorded in the ledger and accounts to valuation reports and to detailed workings, methodology, data and assumptions supporting the reports. For PPE revaluations, we selected four in-year valuations and referred them to in-house EY real estate specialists for review.

Findings:

EY real estate specialists challenged, for the sample selected, methodologies around buildings costs data, treatment of professional fees, asset life and land value assumptions, and treatment of voids and purchaser costs. Whilst there were issues identified that for the individual assets meant their valuation was outside acceptable ranges, the overall net impact of those differences on the combined value of our sample was not material. Our real estate colleagues have conducted follow-up testing with the in-house valuations team to confirm that the methodology issues were not replicated across the remaining population of assets revalued during the year.

This final piece of work is currently underway and we will report our findings at the meeting with you. At this stage, subject to completion of this work, we were satisfied that PPE Land and Buildings values in the draft accounts are materially correct.

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 was the area of focus?

Pension Liability Valuation

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.

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 2018 this totalled £58,520,000. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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.

What did we do?

We:

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Test Valley Borough Council;
- Assessed 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
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Findings:

The estimate used by the actuary to calculate Test Valley's share of Hampshire Pension Fund's assets does not fully reconcile to the value of those assets. This is not material and relates to the fact that there was an estimate for the asset value of the fund provided and used appropriately in the financial statements. Subsequently, the asset value at 31 March 2018 is known and the difference for the fund is an increase of approximately £31m.

This is not an error but a difference caused by timing of the estimate made by the actuary of the fund and the actual values subsequently being available.

Test Valley's share of this difference has been estimated to be £512,629 (the estimation being based on Test Valley's share of the underlying total asset base). This has been noted as an unadjusted audit difference in this report.

At the time of writing this report, remaining pension fund testing was still ongoing but further issues were not expected. We will update the Audit Panel and The General Purposes Committee with the results of our work at their meetings on 25 and 30 July.

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 was 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 was brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provided risks for both the preparers and the auditors of the financial statements.

The Council had less time to prepare the financial statements and supporting working papers. Risks to the Council included slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements.

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

To mitigate this risk we required:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

What did we do?

We have:

- Worked with the Council to engage early to facilitate early substantive testing where appropriate;
- Completed all testing on changes to the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis during the interim audit;
- Completed initial risk assessments on PPE and Investment Property valuations during the interim audit and, for PPE, engaged EY real estate specialists before the start of the final audit visit so that valuation issues outlined at page 16 could be identified early in the final audit process;
- Worked with the Council to implement EY Client Portal, this:
 - Streamlined our audit requests through a reduction of emails and improved means of communication;
 - Provided on -demand visibility into the status of audit requests and the overall audit status:
 - Reduced risk of duplicate requests; and
 - Provided better security of sensitive data; and
- Agreed the supporting working papers that we required to complete our audit.

Findings: We are on track to complete our audit by the deadline subject to satisfactory completion of the outstanding work underway at the time of this report being drafted for Committee papers.





Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Test Valley Borough Council for the year ended 31 March 2018 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 note 1 to 38;
- · The Expenditure and Funding Analysis, and
- 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 2017/18.

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 2018 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 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Test Valley Borough Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGNO1, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified
 material uncertainties that may cast significant doubt about the Authority's
 ability to continue to adopt the going concern basis of accounting for a period
 of at least twelve months from the date when the financial statements are
 authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts set out on pages 1 to 7, other than the financial statements and our auditor's report thereon. The Head of Finance is responsible for the other information.



Draft audit report

Our opinion on the financial statements

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, 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 2018.

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.

Responsibility of the Head of Finance

As explained more fully in the Statement of Responsibilities set out on page 10, 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 2017/18, and for being satisfied that they give a true and fair view.



Draft audit report

Our opinion on the financial statements

In preparing the financial statements, the Head of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's 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 (C&AG) in November 2017, 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 2018.

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.

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.



Draft audit report

Our opinion on the financial statements

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.

Use of our report

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

Maria Grindley (Key Audit Partner) Ernst & Young LLP (Local Auditor) Reading 30 July 2018 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.





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the 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 highlight misstatements greater than £1.1M which have been corrected by management that were identified during the course of our audit.

There were no adjusted differences above this level identified from our work.

We note that as a result of our procedures, some miscellaneous changes to disclosure have been proposed and will be reviewed in the revised account when it is received.

These include removal of a prior year adjustment to long term loans of £510,000; addition of going concern assumption disclosure; and IFRS15 issued but not yet adopted disclosure.

Summary of unadjusted differences

We identified one unadjusted difference relating to the Council's share of the difference between the actuary's estimate of the Pension Fund asset value and the actual Fund value at 31 March 2018. We estimated this to be £512.629.



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"

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 will 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.

Overall conclusion

We did not identify any significant risks around these criteria.

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

We note that since 2016/17, forecast revenue benefits under the new leisure contract have been flagged for monitoring. A paper on progress under this contract was presented to Cabinet on 16 May 2018 and reported a 3% variance against costs of the contract. The variance had been clearly analysed for managing. Whilst we do not consider this to be significant for 2017/18, we will continue to monitor performance under the contract in 2018/19.

Value for Money

As part of our assessment of your proper arrangements, we considered the Council's financial resilience over the medium term and the impact on the level of General Fund Reserve balances at the 31 March 2018 and at the 31 March 2021.

In our assessment we considered:

- The Council's level of savings requirement to balance the General Fund budget in each of the next three years;
- The Council's planned use of reserves to support the General Fund budget in each of the next three years;
- the Council's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Council's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

As a result of our assessment, we are satisfied that the Council's General Fund reserve balance at 31 March 2021 will remain above the Council's approved minimum level. We note that a fall by £3.3 million is expected to the General Fund Reserves between 31 March 2018 and 31 March 2019 but that a year on year increase of just over £3 million per annum is expected during the two years thereafter.

We note that the Council is currently debt free but that by the end of 2018/19, it is expected that planned borrowings of £5.9 million will have been taken out.





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 Statement of Accounts 2017/18 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 Statement of Accounts 2017/18 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 raise.

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 Authority 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 Authority, 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 issues.



Other reporting 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 Authority'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;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

We have no matters to report.





Assessment of Control Environment

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

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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.







Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 1 March 2018.

We complied with the FRC 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 those charged with governance 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 meeting of the General Purposes Committee on 30 July 2018.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Independence



Relationships, services and related threats and safeguards

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	TBC	52,830	52,830	52,830
Non-audit work [Grant claims]	TBC	10,980	13,220	14,012
Total	TBC	63,810	66,050	66,842

We undertook additional work this year on PPE valuations and engaged our EY Estates team. As a result of this work there are additional fees incurred on the main audit. We will quantify this and discuss this with your officers on completion of the audit and will advise the Audit Panel and the General Purposes Committee of final fees for 2017/18 once our work is complete.

Our audit of the housing benefit grant claim is not yet due - we will update our final fees in this area once it is complete.





Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		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.	Audit planning report, March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report, March 2018
Significant findings from the audit	 Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process 	Audit results report, July 2018



		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	 Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: Whether the events or conditions constitute a material uncertainty Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or 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	 Uncorrected misstatements and their effect on our audit opinion The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Material misstatements corrected by management 	Audit results report, July 2018
Subsequent events	Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	No conditions or events were identified, either individually or together, to raise any doubt about amounts or disclosures in Test Valley Borough Council's financial statements.
Fraud	 Enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority Any fraud that we have identified or information we have obtained that indicates that a fraud may exist Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected Any other matters related to fraud, relevant to those charged with governance responsibility. 	Audit results report, July 2018



		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: Non-disclosure by management Inappropriate authorisation and approval of transactions Disagreement over disclosures Non-compliance with laws and regulations Difficulty in identifying the party that ultimately controls the Authority	Audit results report, July 2018
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: The principal threats Safeguards adopted and their effectiveness An overall assessment of threats and safeguards Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report, March 2018 and Audit results report, July 2018



		Our Reporting to you
Required communications	What is reported?	When and where
	 Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy Details of any contingent fee arrangements for non-audit services Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	 Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	 Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or noncompliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	Significant deficiencies in internal controls identified during the audit.	Audit results report, July 2018



		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance	Audit results report, July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report, July 2018
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit results report, July 2018
Fee Reporting	 Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report, March 2018 Audit Results Report, July 2018
Certification work	Summary of certification work	Certification Report, July 2018



Appendix B

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead] [Date]

To:
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 2018. 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 2018 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 2017/18.

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 2017/18.
- 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 2017/18. 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.
- 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 2017/18, that are free from material misstatement, whether due to fraud or error.
- 5. We believe that the effects of the unadjusted audit difference, shown in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial, to the financial statements. We have not corrected this difference identified by and brought to the attention of management by the auditor because it is immaterial.



Appendix B

Management representation letter

Management Rep Letter

- .B. Non-compliance with law and regulations, including fraud
- 1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
- 2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- 3. 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.
- C. 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 Borough Council, Cabinet, Overview and Scrutiny Committee and General Purposes Committee held through the year to the most recent meetings on the following dates; Borough Council: 27 June 2018; Cabinet: 20 June 2018; Overview and Scrutiny Committee: 25 June 2018; and General Purposes Committee: 20 June 2018
- 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.



Management representation letter

Management Rep Letter

- 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.
- D. Liabilities and Contingencies
- 1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
- 2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
- 3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.
- E. Subsequent Events
- 1. Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.
- F. Other information
- 1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
- 2. We confirm that the content contained within the other information is consistent with the financial statements.

- G. Use of the Work of a Specialist
- 1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision in generating the IAS19 pension disclosures 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.

H. Estimates

- 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 applicable financial reporting framework.
- 2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates 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 applicable financial reporting framework.
- 4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Appendix B

Management representation letter

Management Representation Letter

- I. 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.

Signed on behalf of Test Valley Borough Council

Yours faithfully,

Will Fullbrook

(Head of Finance and Section 151 Officer) Date

I confirm that this letter has been discussed and agreed at the General Purposes Committee on 30 July 2018.

Councillor K. Hamilton (Vice Chair of the General Purposes Committee) Date

Schedule of unadjusted differences

	DR	CR
	£	£
Other Long Term Liabilities	512,629	
Unuseable Reserves		512,629

Being the difference between the value of Test Valley Borough Council's share of Hampshire Pension Fund's assets as estimated by the actuary and as estimated by the auditor of the pension fund.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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ANNEX 1