

**Test Valley Borough
Council
Audit results report**

Year ended 31 March 2020

January 2021

25 January 2021



Dear Members

We are pleased to attach our audit results report for the forthcoming meeting of the General Purposes Committee. This report summarises our preliminary audit conclusion in relation to the audit of Test Valley Borough Council for 2019/20.

We have made significant progress on our audit of Test Valley Borough Council for the year ended 31 March 2020. However, progress has been impacted due to the need to work remotely due to the impact of the Covid-19 pandemic and other matters arising in the conduct of the audit.

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. 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 Those Charged with Governance 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 General Purposes Committee meeting on 10 February 2021.

Yours faithfully

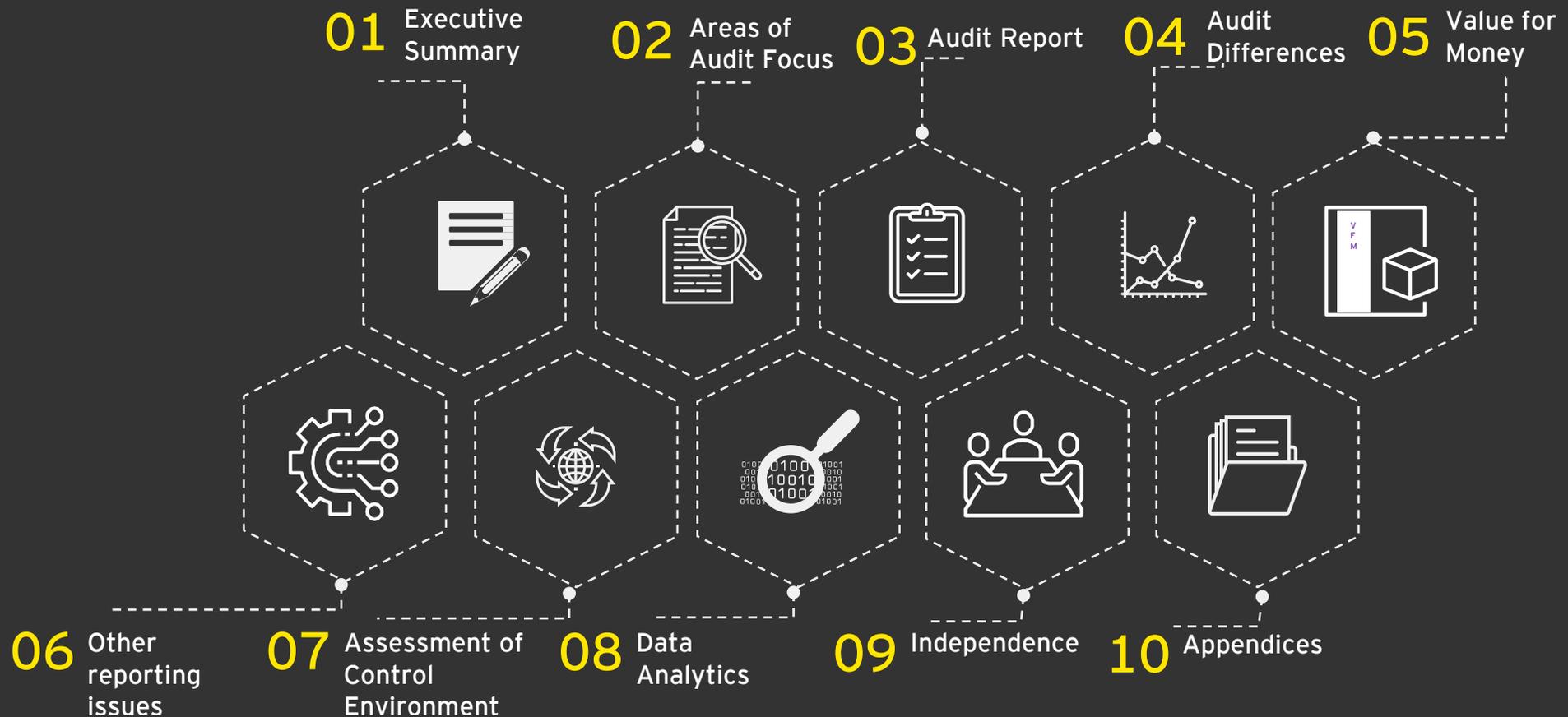
Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This 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 April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary



Executive Summary

Scope update

In our audit planning report presented at the 16th March 2020 Audit Panel meeting, 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 exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment and areas of audit focus as a result of Covid-19

- **Valuation of land and buildings** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's valuers. We consider that the material uncertainties disclosed by the valuers continue to support additional focus relating to disclosures on the valuation of property, plant and equipment and investment property. We responded by using our EY valuation specialists for a sample of property valuations.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered that the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may occur and need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the event and Local Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Executive Summary

Scope update

Changes in materiality

- In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1,368,000, with performance materiality, at 75% of overall materiality, of £1,026,000, and a threshold for reporting misstatements of £68,000. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.
- The basis of our assessment has remained consistent with prior years at 2% of gross operating expenditure. Using the draft year end financial statements we have updated our overall materiality assessment to £1,408,380. This results in updated performance materiality, at 75% of overall materiality, of £1,056,285, and an updated threshold for reporting misstatements of £70,419.

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

Due to the Covid-19 context, EY have added mandatory consultation procedures regarding the content and form of the auditor report, to ensure the sufficient and appropriateness of that report with the work undertaken and client disclosures.

The above changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on pages 38 and 39.



Executive Summary

Status of the audit

We have substantially progressed our audit of Test Valley Borough Council's financial statements for the year ended 31 March 2020 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:

- Completion of our final manager and Associate Partner review processes.
- Completion of subsequent events review.
- Receipt of the signed management representations letter.

Executive Summary

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that it be corrected or a rationale as to why it is not corrected be approved by Those Charged with Governance and included in the Letter of Representations. The aggregated impact of unadjusted audit differences is £590,000. We agree with management's assessment that the impact is not material.

At the time of writing this report, we had identified no audit differences which have been adjusted by management. However, as shown on Page 7, there are areas of testing ongoing. We also note that disclosure changes had been identified both by us and management during the course of the audit process.

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:

- Risk of fraud in revenue and expenditure recognition - incorrect capitalisation of revenue expenditure;
- Misstatements due to fraud or error.
- Valuation of Land and Buildings.
- Pension Liability Valuation.
- Financial Statements presentation.
- Going concern.
- Events after the balance sheet date.

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

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

We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report. There are no other matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of Those Charged with Governance.



Executive Summary

Control observations

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

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. Our procedures were ongoing at the time of writing this report.

We are yet to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission because the NAO have not yet issued the group instruction.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



02

Areas of Audit Focus

Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition - Incorrect capitalisation of revenue expenditure

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.

There is incentive for incorrectly classifying revenue expenditure as capital. Capitalising would remove the expenditure from the General Fund and Council Tax funding, and give opportunity for funding through capital grants, receipts or even borrowing.

There is material opportunity as the Authority's capital programme for 2019/20 of Circa £14,000,000 is significantly above our level of materiality. The main capital expenditure elements of this programme include Community and Leisure for £4,500,000 and Property & Asset Management for £4,300,000.

What judgements are we focused on?

Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- Tested a sample of capital expenditure to verify that revenue costs had not been inappropriately capitalised;
- For significant additions we examined invoices, capital expenditure authorisations and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- Journal testing - we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

Our work to document and evaluate processes and controls over capitalising Property, Plant and Equipment and around raising journals is complete. There were no issues identified from this work.

Our substantive work on capital expenditure and journals is also complete. No issues have been identified from our testing.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

Our testing included:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by Those Charged With Governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
 - Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements,
 - Assessing accounting estimates for evidence of management bias, and
 - Evaluating the business rationale for significant unusual transactions.

What are our conclusions?

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 no findings relating to Journals testing.



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 risk/area of focus?	What did we do?
<p>Valuation of Land and Buildings:</p> <p>The value of land and buildings included within Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Authority's accounts. Within the accounts presented for audit they totalled £82,431,000 and £99,259,000. Movements during 2019/20 included valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to use material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The valuation date for 2019/20 was 31 January 2020 and most assets were valued by the Council's external valuer Vail Williams, with some valuations carried out by the internal commissioning team.</p> <p>In the wake of the Covid-19 pandemic, the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced both by the Authority's internal valuers and by the external valuers Vail Williams.</p> <p>Other areas of focus for the audit were the roll forward of valuations to year end; valuer reliance on data provided by the Council; and use of variables and assumptions.</p>	<ul style="list-style-type: none"> • As part of our work on disclosure in the draft financial statements, we reviewed disclosures on the valuers' material uncertainty over valuation of property, plant and equipment and investment property. We increased our samples due to this disclosure. • For a sample of six properties, we engaged EY Real Estate valuations specialists to review in detail the methodology, data and assumptions supporting valuations. The properties selected for this detailed review comprised four investment properties with a combined year end valuation of £37,520,000 and two other properties with a combined year end valuation of £4,100,000. • Further testing was undertaken on land and buildings by the local audit team. • We considered the adequacy of the scope of valuer work performed; their professional capabilities; and sampling techniques they employed. • The audit team conducted sample testing of key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre). • We considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for Property, Plant and Equipment and annually for Investment Property. We also considered if there are any specific changes to assets that have occurred and whether these are reflected in valuations. • We reviewed the effectiveness of arrangements for rolling forward valuations undertaken previous to 31 March 2020, to the year end. • We reviewed assets not subject to formal valuation in 2019/20 to confirm that the remaining asset base is not materially misstated. • We considered any changes to useful economic lives as a result of the most recent valuation. • Tested to confirm that accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus

Valuation of Land and Buildings - What are our conclusions?

Our work on the valuation of land and buildings included assets held within the Investment Properties and Property, Plant and Equipment headings on the Council's balance sheet.

Most significant of the findings related to disagreement over the Council's valuation of the Walworth Business Park, specifically the head-leases initially valued at £24.85m by its valuer. We disagreed with the valuation, predominantly due to the inclusion of an assumption of 7.75% yield. Yield increases when risk increases, and the evidence provided to us identified a low level of risk relating to the income from this asset. We judged a more appropriate to a range of 4.5% to 5.5%. The Council commissioned Vail Williams to undertake a detailed valuation, arriving at a revised value of £46.4m. Based on the evidence provided from the new valuation including of recent or similar market evidences, we agreed this valuation was reasonable and within our estimated range.

Due to the findings the council subsequently reviewed the valuation of the East and West Portway assets, which contained similar characteristics. Amendments of £4.997m and £12.882m were made respectively for these assets.

There were no reportable differences from the other assets selected for our specialists review.

We additionally completed further work by the audit team, taking into account information from our specialists findings. We identified further issues including:

- Inaccurate calculations; and
- Inconsistencies of valuations to the amounts recorded in the accounts.

Management had not initially undertaken a review this year of the material accuracy of assets not revalued. At our request this review was completed for the assets valued using a Depreciated Replacement Cost (DRC) method. This demonstrated the material accuracy of the valuations. We extended this review ourselves to any other property assets, again finding no indication of material variation to the recorded values.

There are no other findings to report. In all other respects, assumptions, accounting entries and disclosures are appropriate.

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 risk/area of focus?

What did we do?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 requires Test Valley Borough Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2020 the net liability totalled £62,791,000.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We note that in 2018-19 we identified an unadjusted difference relating to the Council's GMP Equalisation adjustment to pension liability value at 31 March 2019. We estimated this to be £338,000. We also identified an adjusted difference relating to the Authority's McCloud Judgement to pension liability valued at 31 March 2019. We estimated this to be £1,620,000.

- For 2019/20, we noted that the Authority's net liability to the pension scheme of £62,791,000 was comprised of Total Scheme Liabilities with a total net present value of £176,501,000 off-set by Total Scheme Assets with a closing fair value of £113,710,000.
- 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. We also:
 - 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 the National Audit Office for all Local Government sector auditors,
 - Considered any reviews by the EY actuarial team,
 - Monitored ongoing developments in areas such as the McCloud rulings, and
 - Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

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.

Pension Fund Valuation - What is our conclusion?

From the Pension fund audit We have received communications of an expected difference in pension fund asset valuations between auditor and actuarial estimate. The Test Valley Borough Council share of that difference is estimated to be £590,000 and that difference is expected to be an unadjusted difference of judgement in the Test Valley Borough Council year end financial statements.

We note that a UK Tribunal ruled in June 2020 in the Goodwin discrimination case that additional liabilities are likely to be required to correct widow/ widower discrimination in the Teacher's Pension scheme. The Local Government pension scheme is likely to be equally affected. Test Valley Borough Council assessed that the maximum impact of adjusting for Goodwin could reasonably be assessed as immaterial and we concurred with that assessment.

In July 2020, UK Government published a remediation consultation for McCloud. Aon Hewitt estimation methodology is in line with that endorsed by the consultation and liability calculations were therefore unaffected for Test Valley Borough Council by the McCloud announcement on methodology.

There are no other issues arising from our work.

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 risk/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 2019/20. 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 2019/20 and for 2018/19 amounts.

What did we do?

We reviewed proposed changes to the format of accounts during the interim audit visit,

We confirm that the prior year reclassification was correctly disclosed, and We 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.

There are no issues to report.

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 risk/area of focus?

What did we do?

Going Concern

Covid-19 has created a number of financial pressures throughout Local Government. There is currently uncertainty in terms of financial support from MHCLG that covers all financial consequences of Covid-19. Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. The disclosures on Going Concern for 2019/20 also became a focus of attention. We consider the unpredictability of the current environment gives rise to a risk that the Local Authorities may not appropriately disclose the key factors relating to going concern.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

We reviewed the proposed going concern disclosures for inclusion in the financial statements and the Council's associated assessments including a forecast of cash flows produced by management through to March 2022.

The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital without an identified need to borrow.

The Council updated its disclosures in the accounts to reference these factors. We were satisfied with the revised disclosure; that it adequately and sufficiently disclosed material events and conditions in relation to the going concern assumption of the Council, and that no material uncertainties exist.

Events after the balance sheet date

We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.

No material events have been identified requiring disclosure.



03 Audit Report



Audit Report

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 2020 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,
- The related notes 1 to 38 and the Expenditure & 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 2019/20.

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 2020 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 2019/20.

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 the authority 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) AGN01, 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 & Revenues' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance & Revenues 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.



Audit Report

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Head of Finance & Revenues is responsible for the other information.

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 April 2020, 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 2020.

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 & Revenues

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the Head of Finance & Revenues 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Finance & Revenues 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.



Audit Report

Our opinion on the financial statements

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 April 2020, as to whether the 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 2020.

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.



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

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
Date



04

Audit Differences



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

Corrected misstatements 31 March 2020 (£)	Assets Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Total Equity Debit/ (Credit)
Valuation amendments, and correction of other errors relating to Investment Properties.	40,566,065			(40,566,065)



Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by Those Charged with Governance and provided within the Letter of Representations:

Uncorrected misstatements 31 March 2020 (£)	Balance Sheet (Decrease)/Increase			Total Equity Debit/ (Credit)
	Assets Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	
Judgemental differences:				
Unadjusted difference between auditor and actuary estimate of pension fund asset valuations			(590,000)	590,000
Balance sheet totals			(590,000)	590,000

A woman with dark hair, wearing a brown blazer over a white top, is smiling and gesturing with her hands in a modern office environment with large windows and a glass ceiling.

05 Value for Money

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.

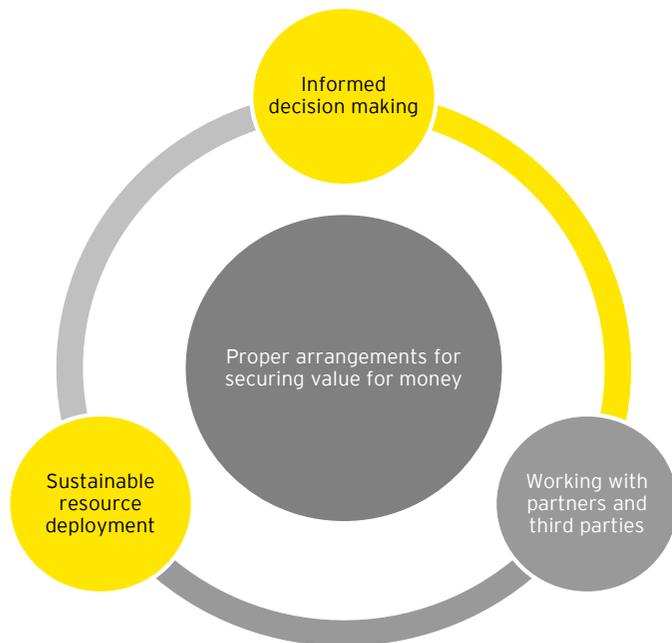
For 2019/20 this is based on the overall evaluation criterion:

"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.



Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

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 during 2019/20.



06 Other reporting issues

Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 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 2019/20 and published with the financial statements was consistent with the audited financial statements.

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

Our procedures were ongoing at the time of writing this 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.

Test Valley BC falls within the de-minimum threshold of £500m, and so we anticipate having no matters to report.

Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the 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 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;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations; and
- Consideration of laws and regulations.

As at the time of drafting this report we have no further specific matters to draw to your attention.

The completion of the audit has taken longer than anticipated this year due to the operational impact of Covid-19. We were undertaking our interim procedures when the UK went into lockdown during March 2020, and less work was completed at that time than is usually the case.

For the final audit ‘visit’ we have been working remotely from the Council offices. This has meant longer elapsed time in communications and requests for information, when in normal circumstances we are located close to the Council officers and can discuss issues arising more quickly.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the 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. However, we note that:

An external assessment of the internal audit function was carried out in April 2019. This assessment highlighted areas of non-conformance with Public Sector Internal Audit Standards (PSIAS) in a number of significant areas: Assurance Mapping; Strategic Framework; Resources; Audit Universe; and Audit Plan. As a result, although the Authority's Head of Internal Audit was able to provide Substantial Assurance on the effectiveness of the control framework and governance processes at Test Valley Borough Council for 2018/19, this opinion noted that it was qualified as a result of the PSIAS assessment.

A 32-Point Action Plan was prepared by Test Valley Borough Council to address the PSIAS findings. The Action Plan addressed seven areas requiring attention: Audit Manual; Reporting; Performance; Charter and Strategy; Universe and Plan; Quality Assurance; and Improvement Plan. The audit plan for 2019/20 had already been created based on the existing audit universe which, following the assessment had been declared as inadequate. Therefore it was not expected to be possible in the 2019/20 Audit Opinion to confirm that the Authority produced an audit plan which encompassed the key risks facing the council. However, by way of mitigation to this, the key fundamental systems audits were conducted under a new Risk based Auditing model which incorporated robust area-specific risk assessments.

The Authority's Head of Internal Audit was able to provide Substantial Assurance on the effectiveness of the control framework and governance processes at Test Valley Borough Council for 2019/20 without qualification.



08 Data Analytics



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 2019/20, 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.



09

Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee 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 10 February 2021.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees for the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.



Independence

Analysis of Audit fees

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 Month 2020.

We confirm that we have not undertaken non-audit work.

Description (all fees exclude VAT)	Final Fee 2019/20	Planned Fee 2019/20	Final Fee 2018/19
	£	£	£
Audit Fee - Code work reflected in scale fee	40,679	40,679	41,061
CIES/EFA Restatements work	777	776	
IAS19 Pension Fund Protocol Procedures	813		
Impacts assessments for tribunal rulings on Pension Fund liabilities	466		
Additional fee to address Covid-19 related risks and impacts including Going Concern/Financial Sustainability	6,502		
Additional fee in connection with audit of Property, Plant and Equipment and Investment Properties valuations	8,885		
Total audit	58,122	41,455	41,455

All additional fees are subject to discussion with the Head of Finance & Revenues, and then final approval by PSAA Ltd. Details are included on page 39

 Independence

Confirmation and analysis of Audit fees (continued)

An additional scale fee variation of £17,443 has been applied to the planned fee based on the following items:

- 1) £777 time incurred for the review of the restated CIES and EFA prior year comparators, due to change in reporting structure.
- 2) £813 has been submitted for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors
- 3) £466 time for review of additional pension rulings and developments (McCloud and Goodwin) post year-end
- 4) £6,502 Covid-19 impacts:
 - We needed to update and revised risk assessments, including considering the impact on materiality. £775.
 - The identification of Going Concern being identified as an additional risk due to Covid-19 resulted in additional work including discussions, review/challenge of documents, cash flow forecasts, consideration of proposed disclosure. This additional time has been recorded at £3,278.
 - An additional cost of £629 has also been charged as we were required to consult with our professional practise department over the going concern disclosure in the accounts.
 - Delays in responses to requests for audit evidence, and from incomplete listings of debtor and creditor balances required us to book additional resource to complete our testing. £1,820.
- 5) £8,885 property asset valuations. The inclusion if material uncertainty disclosures in valuers reports required us to increase our level of testing of the valuation of Property, Plant & Equipment assets and Investment Properties, notably larger sample sizes to be tested. We were also required to use specialist valuers for a sample of assets. Our work identified a number of issues as set out on pages 13 and 14 which required further time to resolve.

 Independence

Confirmation and analysis of Audit fees (continued)



Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees ([PSAA fee consultation](#)), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond ([Redmond Review](#)) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified a proposed fee rebasing of £20,488 under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 22 May 2020, delayed from March 2020 due to the impact of the coronavirus pandemic.

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement

Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

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 end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

10 Appendices

Appendix A

Required communications with Those Charged with Governance

There are certain communications that we must provide to Those Charged With Governance 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
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • 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 planning report

 Appendix A

		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"> • 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	<ul style="list-style-type: none"> • 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
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	No subsequent events have been identified that would impact either individually or together on Test Valley Borough Council’s financial statements as at 31 March 2020
Fraud	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • Management; • Employees who have significant roles in internal control; or • 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 Those Charged with Governance responsibility. 	Audit results report

 Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • 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
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report and Audit results report

 Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit results report

 Appendix A

		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	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> 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"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> 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 and Audit Results Report

 Appendix B

Management representation letter

Management Representation Letter

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

Kevin Suter
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

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 2020. 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 2020 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 2019/20.

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), 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

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 2019/20.

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 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements. 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 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

 Appendix B

Management representation letter

Management Representation Letter

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention of the auditor because we do not consider that they impact on the overall truth and fairness of the financial statements.

B. Non-compliance with law and regulations, including fraud

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.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

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.

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

 Appendix B

Management representations letter

Management Representation Letter

C. Information Provided and Completeness of Information and Transactions

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.

All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

We have made available to you all minutes of the meetings of the Cabinet, Council and General Purposes Committee and Audit Panel held through the year to the most recent meeting on the following date: XXXX

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.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

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.

From 30th July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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.

We have informed you of all outstanding and possible litigation and claims, whether they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 35 to the financial statements all guarantees that we have given to third parties.

 Appendix B

Management representation letter

Management Representation Letter

E. Subsequent Events

Other than as described in Note 36 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.

We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

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, and 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

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.

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.

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.

We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

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.

 Appendix B

Management representation letter

Management Representation Letter

Signed on behalf of Test Valley Borough Council

Yours faithfully,

 Carl Whatley
 (Head of Finance & Revenues and Section 151 Officer)
 Date

I confirm that this letter has been discussed and agreed at the
 General Purposes Committee on 10 February 2021

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

Schedule of unadjusted differences

Being the unadjusted difference between auditor and actuary estimate of
 pension fund asset values:

	CIES		SOFP	
	DR	CR	DR	CR
	£	£	£	£
Long Term Liabilities				590,000
Total Equity			590,000	

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ED None

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