

**Test Valley Borough Council**

# **Audit results report**

Year ended 31 March 2021

December 2021



Building a better  
working world

10 December 2021



Members of the General Purposes Committee

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

Dear Members

### **2020/21 Audit Results Report**

We are pleased to attach our audit results report summarising the status of our audit for the forthcoming meeting of the General Purposes Committee.

The audit is designed to express an opinion on the 2020/2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the General Purposes Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the committee meeting on 12 January 2022.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents

ANNEX 1



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



# 01 Executive Summary

## Scope update

In our audit planning report, 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 amendments:

### Changes in materiality

We updated our planning materiality assessment using the draft financial statements. We also reconsidered our risk assessment and confirmed the basis for materiality continues to be appropriate.

### Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. In relation to the IAS19 liability, neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, were able to access the detailed models of the actuaries in order to evidence these requirements. We therefore modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We have involved our pensions specialists in order to complete this work. The results of this exercise showed the actuarial estimate to be accurate within a reasonable range.

### Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

#### *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 Council'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
- Agreed IPE to scanned documents or other system screenshots.

## Status of the audit

We have substantially completed our audit of Test Valley Borough Council's financial statements for the year ended 31/3/2021 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 Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

- Receipt of the Letter of Representation;
- Receipt of the final signed and approved Statement of Accounts.

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- *Financial sustainability*  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- *Governance*  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- *Improving economy, efficiency and effectiveness:*  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Status of the audit - Value for Money

Our work on the Council's Value for Money arrangements is complete. We have not identified any risks of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have made three recommendations for the Council to consider for improvement.

Recognising the pressures in the local audit system, the NAO's guidance for 2020/21 allows the Auditors Annual Report to be issued 3 months after giving the opinion on the financial statements. Our current aspiration is not to use the full extended time period for our report in respect of the Council. We have already provided a draft of the Value for Money Commentary to the Audit Panel for their meeting on 22 November 2021. We will update you should this change for any reason.

## Audit differences

At the time of this report we note one audit difference, details of which can be found in Section 4 Audit Differences.

## Other reporting issues

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

We are still to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the instructions are yet to be issued. We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £500m. Therefore, we anticipate having no issues to report. However, we will not be able to issue the audit certificate at the same time as the audit opinion, as we cannot certify the completion of the audit until this work is completed.

We have no other matters to report.

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Test Valley Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised below, with the details provided within the "Areas of Audit Focus" section of this report.

Issue	Summary finding
Fraud Risk: Management override of controls	Work in this area is complete. There are no matters to report
Fraud Risk: Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure	Work in this area is complete. There are no matters to report
Significant risk: Valuation of Land and Buildings in Property, Plant and Equipment (PPE) and Investment Properties (IP)	We challenged the valuer in particular on the valuation of the land and buildings and how they had applied land values. We have concluded that PPE and IP assets are materially correctly stated. We identified an issue on two assets regarding the process to value land.
Other Area of Audit Focus: Pension Liability Valuation	We have completed our work in this area, and identified a misstatement of the pension fund asset impacting the overall net liability. Management have amended the value.
Other Area of Audit Focus: Accounting for Covid-19 related grant income.	Work in this area is complete - no matters to report.
Other Area of Audit Focus: Payroll migration.	We found no issues when we reviewed the transfer of data to the new payroll system.
Other Area of Audit Focus: Going concern.	The Council's financial statements adequately disclosed management's assessments of its Going Concern used and the relevant risks and challenges that have impacted the going concern period.
Other Area of Audit Focus: NDR Appeals Provision	We completed our review in this area, evaluating the revised methodology used by management for their assessment of provision on the 2017 listing. We challenged management in particular on the 'risk factor' employed in the calculation, why this was used and how the specific factor applied was supported.  We drew an overall conclusion that the provision was supportable, and concluded that in combination the disclosures made within the financial statements appropriately conveyed the estimation uncertainty inherent in the estimation for the reader's understanding.

## Areas of audit focus (continued)

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Council or Management.

## Control observations

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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

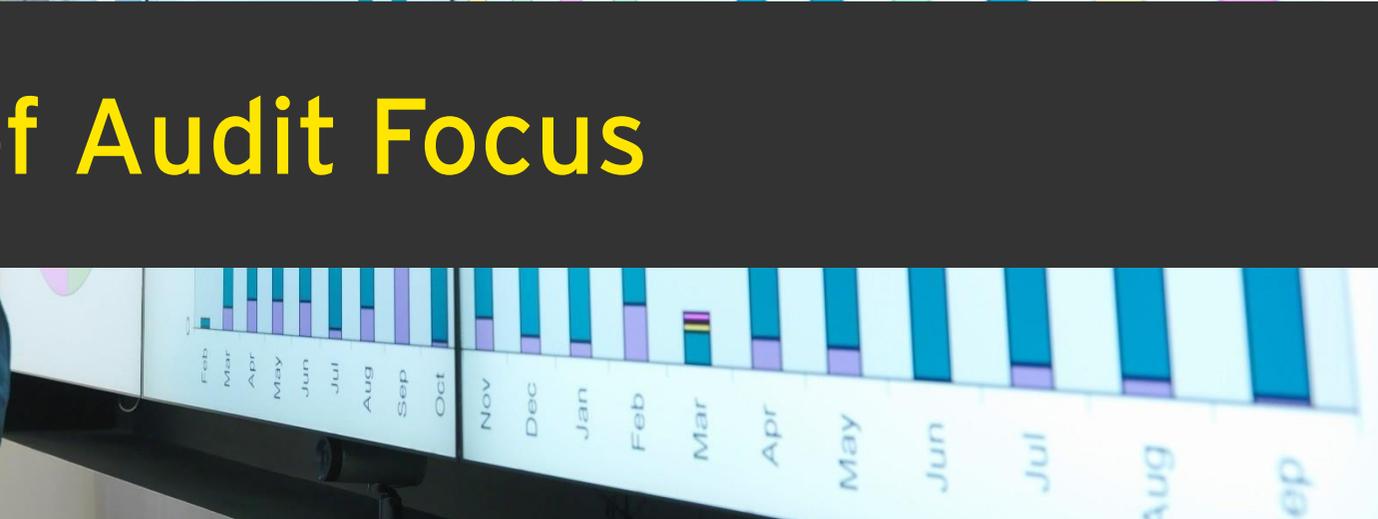
There are no matters we wish to report.

## Independence

Please refer to Section 8 for our update on Independence.



# 02 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?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure

#### What did we do?

Our approach focused on:

- ▶ 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.

Further to this, we have:

- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ We have considered the effectiveness of management's controls designed to address the risk of fraud.

#### 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 Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.



## Significant risk

### Risk of fraud in revenue recognition - inappropriate 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.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, incorrectly removing the spend from the general fund through applying statutory overrides.



#### What did we do?

Our approach focused on the following:

- ▶ We selected a sample of Property, Plant and Equipment (PPE) and Investment Property additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.
- ▶ We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items
- ▶ When performing journals testing, we analysed entries that would be classed as high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.

#### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We tested a sample of PPE and Investment Property additions and confirmed they met the capitalisation requirements under IAS16

We tested a sample of REFCUS items and confirmed they were appropriately classified

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

We did not identify any other transactions through our test of journals or our other audit procedures which appeared unusual or outside the Council's normal course of business.



# Significant risk

## Valuation of Property, Plant and Equipment (PPE) including Investment Property

### What is the risk?

Property, Plant and Equipment land and buildings (L&B) measured at Fair Value (FV) or Existing Use Value (EUUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.



### What judgements did we focus on?

We focused on the following:

- ▶ The reasonableness of the underlying assumptions used by the Council's experts - Carter Jonas and its internal valuer - including key assumptions of:
  - ▶ Yields
  - ▶ Future forecast income
  - ▶ Asset condition
- ▶ Ensuring the information supplied to the valuer in relation to Test Valley Borough Council was complete and accurate
- ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the valuations.



## Significant risk

### What did we do?

We have:

- ▶ considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ 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 PPE;
- ▶ considered any specific changes to assets that should have been communicated to the valuer;
- ▶ sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ instructed our own Property valuation team (EY Real Estates) to review a sample of EUV and FV valuations performed by the Council's Valuer;
- ▶ reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ▶ considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ tested accounting entries have been correctly processed in the financial statements

### What are our conclusions?

- We engaged our internal property specialists, EY Real Estates, to review a sample of 5 EUV and FV valuations performed by the Council's Valuer. As an audit team we also reviewed a sample of 20 EUV and FV valuations performed by the Council's Valuer.
- Based on the results, we consider valuations to be materially correct,
- However we have identified two issues over our reporting threshold:
  - *Romsey Rapids Leisure Centre*: The overall valuation of the property was within a reasonable range. However, we found that within that range the valuation of the land at £100,800 is outside of the expected range of £1.4 to £1.6 million, because the valuer adopted a low price for amenity land at £25k per acre rather than using commercial land values of some £350k to £400k per acre.
  - *Augusta Community Centre*: Although on an aggregate basis, the valuation of the centre is within an expected range, the land value adopted of £13,750 is significantly below a reasonable value of £144,000 for a similar reason to the above Leisure Centre.
- These do not require an amendment to the financial statements, but we are reporting the matter for consideration by the Council as instances of the same approach in future periods may lead to items that require corrections.
- The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued during 2020/21.
- We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.

## Other areas of audit focus

### What is the area of focus?

#### Valuation of Pension Liabilities (Local Government Pension Scheme)

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 balance sheet. At 31 March 2021 this totalled £75.4 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for these schemes 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.

In the previous year the pension liability disclosed in the accounts was impacted by national issues that necessitated an updated IAS 19 report from the actuary. It was also impacted by material changes to the value of pension assets at the year end, compared to the estimate made by the actuary to inform the original IAS 19 report.

### What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ liaising with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Test Valley BC. We received their assurance in late September 2021.
- ▶ assessing the work of the LGPS Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the NAO for all Local Auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19, including any updates to the value of year end assets.

In response to the updated requirements of ISA540, we modified our planned approach and undertook alternate procedures to create an auditor's estimate on the gross pension liability.

### What are our conclusions?

We have concluded that we could rely on the work of the Pension Fund actuary, and assessed their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.

There was an amendment to the pension fund gross pension asset valuation by a downward valuation of £2.47 million. This was as a result of information from the preparation of the 2020/21 audited accounts not being passed to the actuary.

The results of the EY pensions specialist has confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.

## Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
<p><b>Accounting for COVID grants</b></p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p> <p>We considered the Council's judgement on material grants received in relation to whether it is acting as:</p> <ul style="list-style-type: none"> <li>▶ Agent, where it has determined that it is acting as an intermediary; or</li> <li>▶ Principal, where the Council has determined that it is acting on its own behalf.</li> </ul>	<p>On a sample of the grant and funding population we performed the following:</p> <ul style="list-style-type: none"> <li>▶ Reviewed the Council's decision for new grant or funding arrangements whether it is acting as principal or agent;</li> <li>▶ Reviewed whether any initial conditions are attached to grants impacting their recognition;</li> <li>▶ Assessed whether the accounting appropriately follows those judgements; and</li> <li>▶ Checked the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.</li> </ul> <p>We also reviewed the Compensation scheme for lost sales, fees and charges (due to the Covid pandemic) which are estimated to be some £2.2 million.</p>	<p>Based on our work we are satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met. These grants have been adequately disclosed in the accounts.</p>
<p><b>Payroll data migration</b></p> <p>On 1st April 2020, the Council transferred its payroll processing system and administrator from Hampshire Country Council. The new system iTrent is being administered by Midland HR as a managed service contract.</p> <p>As gross employee benefits in 2019-20 were £21 million this will be an area of focus for our audit.</p>	<p>In order to address this risk we carried out procedures including:</p> <ul style="list-style-type: none"> <li>• documenting how the Council controlled its payroll data transfer;</li> <li>• testing the output from parallel system runs and other tests of individual's pay.</li> </ul>	<p>We found no issues when we reviewed the transfer of data to the new payroll system.</p>

## Other areas of audit focus (continued)

What is the area of focus?	What did we do?	What are our conclusions?
<p><b>Going Concern Compliance with ISA 570</b></p> <p>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor’s report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements.</p> <p>Covid-19 has created a number of financial pressures throughout local government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced some income losses. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19.</p> <p>CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>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.</p> <p>The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the General Purposes Committee.</p>	<p>We have met the requirements of the revised auditing standard on going concern (ISA 570) and considered the adequacy of the Council’s going concern assessment and its disclosure in the accounts by:</p> <ul style="list-style-type: none"> <li>▶ Challenging management’s identification of events or conditions impacting going concern.</li> <li>▶ Testing management’s resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).</li> <li>▶ Reviewing the cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.</li> <li>▶ Undertaking a ‘stand back’ review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.</li> <li>▶ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.</li> </ul>	<p>We discussed the detailed implications of the revised auditing standard with finance staff in order to provide management with information regarding the adequacy and sufficiency of the proposed disclosures in relation to going concern.</p> <p>The Council’s financial statements adequately disclosed management’s assessments of its Going Concern and the relevant risks and challenges that have impacted the going concern period.</p>



## 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 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 38 to the Core Financial Statements,
- 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 2020/21.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of the Test Valley Borough Council as at 31 March 2021 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 2020/21.

#### 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 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) 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

In auditing the financial statements, we have concluded that the Head of Finance and Revenues (s151) Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Head of Finance and Revenues (s151) Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

#### Other information

The other information comprises the information included in the Financial Report, other than the financial statements and our auditor's report thereon. The Head of Finance and Revenues (S151) Officer is responsible for the other information contained within the Financial Report

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.

## Draft audit report

### Our opinion on 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 course of 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 themselves. 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

### 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;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.
- ▶ We are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year 31 March 2021.

We have nothing to report in these respects

### Responsibility of the Responsible Financial (s151) Officer

As explained more fully in the Statement of Responsibilities set out on page 11, the Head of Finance and Revenues (s151) Officer 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance and Revenues (s151) Officer is responsible for assessing the Council'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 Council either intends to cease operations, or have no realistic alternative but to do so.

The Council 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.



## Draft audit report

### Our opinion on the financial statements

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- The Local Audit and Accountability Act 2014,
- The Accounts and Audit Regulations 2015,

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Test Valley Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal

audit, those charged with governance and the monitoring officer and obtaining and reviewing documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our review of the Council's committee minutes, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance through inappropriate capitalisation of revenue expenditure, and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also tested a sample of REFCUS items to confirm they were appropriately classified.

To address our fraud risk of management override of controls, in common with all audits under ISAs (UK), we perform specific procedures to respond to the risk. We tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.



## Draft audit report

### Our opinion on the 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 reporting criterion issued by the Comptroller and Auditor General in April 2021, as to whether the Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the 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 2021.

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, the 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 Council has made 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

#### Use of our report

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



04

# Audit Differences



# Audit Differences

## ANNEX 1

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 and unadjusted differences

We highlight the following misstatements greater than materiality of £1.474m and our nominal value of £73.7k that were identified during the course of our audit.

#### Uncorrected misstatements

There are no uncorrected misstatements to bring to your attention.

#### Corrected misstatements

- *Balance Sheet - Pension Fund asset:* Reduction in the pension fund asset valuation of £2.47 million due to the actuary being provided with the impaired valuation figures from the prior year.

#### Amendments to disclosures

- *Note 4 - Assumptions made about the future and other major sources of estimation uncertainty.* Additional note on PPE valuation and how this may be impacted with a change in estimate assumptions.
- Other minor disclosure issues have been amended.



05

## Value for Money



## The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

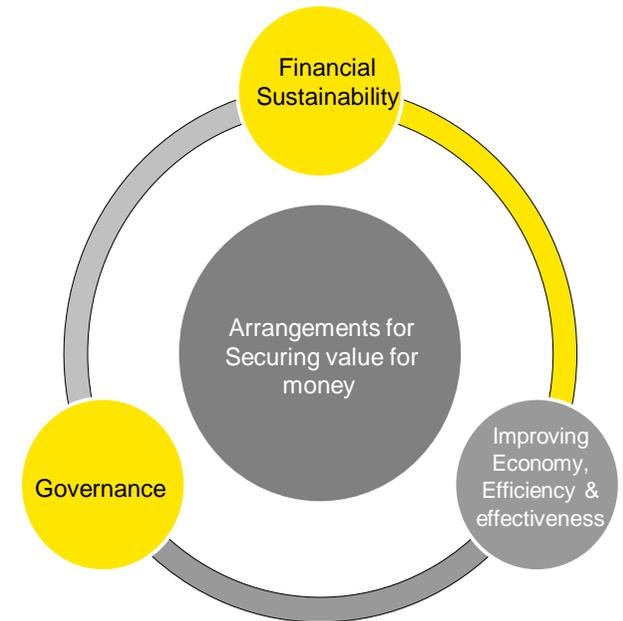
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA Code of Practice on Local Authority Accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment and Status of our VFM work

We have previously reported in our planning report that our assessment of the risk of significant weaknesses in the Council's VFM arrangements was ongoing, but at that stage we have not identified any risks.

We completed our risk assessment procedures, and did not identify any risks of significant weakness. We summarised our draft proposed commentary for the Audit Panel meeting on 22 November 2021, including some suggestions for improvement that the Council could consider.

We will issue our VFM commentary in the Auditor's Annual Report.





## 06 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 2020/21 with the audited financial statements

- Financial information in the Narrative Statement and published with the financial statements was consistent 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.

- 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 are unable to complete the WGA procedures as the NAO has yet to issued the group instruction as HM Treasury have yet to issue the guidance to Local Authorities.

### Other powers and duties

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

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any 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 Test Valley Borough Council's financial reporting process. We have no other matters to report.



07

# Assessment of Control Environment

## Financial controls

It is the responsibility of the Test Valley Borough 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 Test Valley Borough 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.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention



08

# Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members 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 2020 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 next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, no written proposal to provide non-audit services has been submitted.

We confirm that for 2020/21 we have not undertaken non-audit work.

## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report.

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 that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Committee.

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 March 2021.

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

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee	40,679	40,679	40,679
Scale Fee Rebasing	TBC	20,488	Included in SFV
<b>Revised Proposed Scale Fee</b>			
Scale Fee Variation (SFV) (Note 1, 2)	TBC	TBC	20,105
<b>Total Audit Fee</b>	<b>TBC</b>	<b>TBC</b>	<b>60,784</b>

1. The PSAA has determined the final scale fee variation from 2019/20 to be as shown. This is a combination of our scale fee rebasing and scale fee variation submission and represents 53% of our original submission.
2. The PSAA published guidance for 2020/21 scale fee variations in August which we have shared with management. This notes the additional audit requirements in 2020/21 onwards for VfM and estimates and the impact this is expected to have on fees. As work is still ongoing at this time, we are unable to quantify a final fee but can confirm it will take into account the PSAA guidance, which indicates a minimum for these two areas of £8,500.

## Other communications

### EY Transparency Report 2020

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 2021:

[EY UK 2021 Transparency Report | EY UK](#)

A close-up photograph of a person's hand reaching into a filing cabinet. The hand is positioned over a row of folders, with the index finger pointing towards one of them. The folders are of various colors (yellow, orange, white) and are filled with papers. The background shows the perforated metal of the filing cabinet drawers.

# 09 Appendices

# Required communications with the General Purposes Committee

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

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>
Terms of engagement	Confirmation by the General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report - June 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report - June 2021
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - December 2021

# Appendix A

## ANNEX 1



### 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: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Test Valley Borough Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - December 2021
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the General Purposes Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report - December 2021
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to the General Purposes Committee responsibility.</li> </ul>	Audit Results Report - December 2021

# Appendix A

## ANNEX 1



### Our Reporting to you

Required communications	 What is reported?	 When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - December 2021
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Results Report - December 2021
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the General Purposes 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</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

# Appendix A

## ANNEX 1



### Our Reporting to you

Required communications	 What is reported?	 When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	We have not identified any significant deficiencies in internal controls
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report - December 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report - December 2021
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report - December 2021  No such circumstances identified

# Draft Management Representation Letter

## Management Rep Letter

Ernst & Young LLP

Grosvenor House  
Grosvenor Square  
Southampton  
Hampshire  
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 2021. 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 2021 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 2020/21.

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

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 2020/21.

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 2020/21. 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 2020/21, 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.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### 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.

# Management representation letter

## Management Rep Letter

4. 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, 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 Authority’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.
- 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 all material transactions, events and conditions are reflected in the financial statements.
  3. We have made available to you all minutes of the meetings of the Full Council, Cabinet and Audit and Governance Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *tbc*.
  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.
  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.
  7. From the date of our last management representation letter (10 February 2021) 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.

# Management representation letter

## Management Rep Letter

### 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. Going Concern

1. Note 37 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

### F. Subsequent Events

1. Other than as described in 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.

### G. Other information

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

### H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

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

1. We agree with the findings of the specialists that we engaged to evaluate the IAS19 pension liability and disclosure, property, plant and equipment valuations and investment property valuations, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### J. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities, the valuations of property, plant and equipment and investment properties, and the NDR appeals provision have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out any relevant specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

# Management representation letter

## Management Rep Letter

### K. Retirement Benefits

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

Yours faithfully,

\_\_\_\_\_  
Head of Finance & Revenues

\_\_\_\_\_  
Chairman of the General Purposes Committee

## Implementation of IFRS 16 Leases

In previous reports to the Council, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the authority's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: <ul style="list-style-type: none"> <li>▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	The Authority needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> <li>▶ Whether to adopt a portfolio approach</li> <li>▶ What low value threshold to set and agree with auditors</li> <li>▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>▶ What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the Council is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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ANNEX 1