

Test Valley Borough Council  
Draft Audit Results Report

Year ended 31 March 2024

February 2025



Building a Better  
working world





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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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>). 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 July 2021)" 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 Committee 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 Committee 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 Committee 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

















02

# Areas of Audit Focus



# Areas of Audit Focus

## Significant risk- Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

### △ Fraud Risk

#### What is the risk, and the key judgements and estimates?

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.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

#### What is the status of our work?

- ▶ We selected a sample of PPE 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.
- ▶ Based on our sample testing of Property, Plant and Equipment additions we did not identify any instances where costs were not capital in nature, i.e. addition costs were directly attributable to the assets.
- ▶ We selected a sample of expenditure from Revenue Expenditure Funded from Capital Under Statute (REFCUS), to confirm it met the appropriate classification.
- ▶ We have not identified any instances of inappropriate journal entry postings in relation to capitalisation of revenue expenditure.

#### Our response to the key areas of challenge and professional judgement

As set out in our Audit Plan, we confirm that we have performed the following procedures:

- ▶ Tested Property, Plant and Equipment (PPE) additions using a low testing threshold to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ Assessed whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- ▶ Considered whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- ▶ Substantially tested REFCUS expenditure to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources.
- ▶ Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.









# Areas of Audit Focus

## Area of audit focus: IFRS 16- Leases

### What is the risk, and the key judgements and estimates?

IFRS 16 Leases is being implemented in Local Government from 01 April 2024.

IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all but low-value or short term leases. The proposals arise partly from the IASB's view that:

- disclosures around operating lease commitments have lacked prominence and tended towards understatement; and
- even in leases where the underlying asset is not acquired for its whole useful life, the lessee nevertheless acquires an economic right to its use, along with obligations to make good on minimum lease payments.

These will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability.

As such, the Council is required to prepare readiness assessment disclosing known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

### What is the status of our work?

Our procedures to respond to this area of focus are complete.

Based on our review of management's approach and the processes in place to adopting IFRS16 management's approach was reasonable and compliant with the CIPFA Code.

We reviewed the disclosures made by management in the Financial Statements and concluded these were appropriate - management have not made explicit reference to IFRS 16 as they deem it to be immaterial to Test Valley Borough Council.

### Our response to the key areas of challenge and professional judgement

As set out in our Audit Plan, we confirm that we have performed the following procedures:

- ▶ Evaluated the reasonableness assessment carried out by the Council
- ▶ Reviewed the disclosures made within the Council's financial statements in relation to IFRS 16 - Leases.
- ▶ Reviewed the disclosures made by management reflecting the anticipated impact of the adoption of the standard



# 03 Value for Money

# Value for Money

## The Authority'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 Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the NAO Code of Audit Practice. 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 work

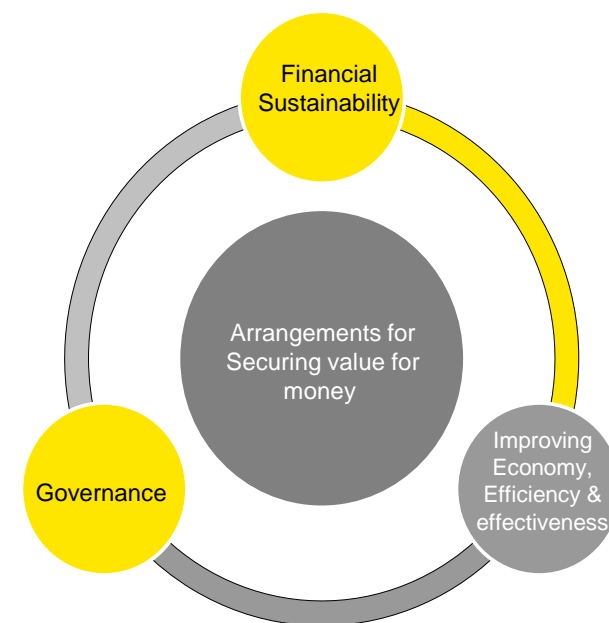
We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council arrangements against three reporting criteria:

- ▶ **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.

In our Audit Planning Report dated 17 June 2024, we reported that our value for money (VFM) risk assessment was in progress, and we had identified no risks of significant weaknesses in arrangements. Our work in this area is still ongoing however, we did not identify any significant weaknesses from our work completed to date. We will issue our VFM narrative commentary in our 2023/24 Auditor's Annual Report when we have concluded our audit.





# 04 Audit Report

## Expected modification to the audit report

As reported in our 2022/23 Audit Completion Report to Those Charged with Governance (dated 20 November 2024), we issued a disclaimed audit report on the Council's financial statements for 2022/23 under the arrangements to reset and recover Local Government audit.

We anticipate completing our planned programme of work for 2023/24, but because of the gaps in assurance from 2022/23 we have not obtained sufficient evidence to be able to conclude that the financial statements are free from material and pervasive misstatement. We did not plan to rebuild this assurance in our 2023/24 audit.

Taken together with the requirement to conclude our work by the 2023/24 backstop date set by legislation, the lack of evidence over these movements and balances mean we are unable to conclude that the Authority's 2023/24 financial statements are free from material and pervasive misstatements.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion. The form and content of the Audit Report will be shared with the Chair of the Audit Committee to support the approval of the accounts and the Section 151 officer to enable the formal authorisation of the 2023/24 financial statements for issue.



# 05 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

We highlight the following misstatements which have been corrected by management that were identified during the course of our audit and audit differences which are uncorrected by management above £76.8k.

### Audit findings leading to audit differences

We wish to bring to the attention of this committee the current findings of the audit which will result in audit differences. However, we are yet to fully conclude as review is still ongoing.

#### ➤ Corrected Audit differences:

- **Investment Property:** We noted a discrepancy between the valuation report from Carter Jonas and the Fixed Asset Register - the discrepancy was **£160k** and due to a property being no longer owned by Test Valley Borough Council but remained on the Fixed Asset Register. This has been corrected by Management.
- **Pensions:** A decrease of **£4.4m** to the net Pension Liability due to an incorrect change in demographic assumptions and inflation experience used by the Actuaries (Hymans Robertson)
- **Income & Expenditure Testing:** Removal of **£682k** in both income and expenditure in relation to a bed & breakfast rebate for homeless individuals which was not able to be claimed back in full.
- **Creditors:** s106 netting off between creditors and debtors of **£258k** - the contribution is held on behalf of another entity so has no income statement effect. This is a misstatement because the wrong amounts were raised initially, the £258k represents the actual error. Note that we have also extrapolated this error as well due to it being part of our representative sample - see below for uncorrected differences.

#### ➤ Uncorrected Audit differences

- **Reclassification misstatement: Creditors:** s106 reclassification misstatement between debtors and creditors that is an extrapolated error of **£2.7m** - the s106 amount is held on behalf of another entity so there is no income statement effect.
- **Factual misstatement: Debtors:** VAT adjusted incorrectly reducing the debtor by **£112k**
- **Judgemental misstatement: Bad Debt Provision:** Housing benefit overpayment debtor has been underprovided for by **£180k**
- **Projected misstatement: PPE Existence Testing:** A projected misstatement of **£808k** due to a portion of a car park not belonging to Test Valley Borough Council. The actual error is **£29k**, extrapolated over our representative sample gives a projected misstatement of **£808k**.

Throughout the course of our audit, we identified small number of disclosure adjustments:

- Related Party Note has been updated to disclose transactions with Valley Housing Ltd (subsidiary).
- Note 15 Leases required the following changes: Receivable within 1 year - to be increased to £9,563k, Receivable within 1 to 5 years - to be increased to £33,048k, Receivable after 5 years - to be reduced to £414,426k





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# 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. 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 including group-wide.

As part of our Journals testing, we made an observation that there is no approvals process for posting journals. TVBC have stated that only accountants have the ability to post journals, but we believe that this is a necessary control that should be implemented.

We are unable to complete our planned procedures for PPE valuations due to being unable to obtain the GIA's (Gross Internal Areas) from the Council. The GIA's are a fundamental input element in the valuation method and we have noted a lack of robust record retention in this area. Management have agreed to rectify this for 24/25.

We also make reference to the quality of documentation provided to us - the quality of working papers provided to us has generally been of sufficient quality in the 23/24 audit. However, with listings for various classes of debtors and creditors, the level of detail was insufficient to enable us to select samples efficiently because multiple items were not provided at transaction level, thus we needed to obtain a new population and re-sample a number of times, which leads to an increase in audit time and cost.

## Reliance on internal audit

Our review and evaluation of controls is performed in conjunction with Internal Audit to minimise duplication and to rely on their work where appropriate.

As part of our assessment of Test Valley Borough Council's control environment we have reviewed the internal audit reports that were issued during the year. We have also made enquiries to internal audit to understand their view on the risks of fraud at Test Valley Borough Council.

We have not placed direct reliance on the work of internal audit to support our audit report.



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# 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 Test Valley Borough Council Statement of Accounts 2023/24 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.

Based on audit worked performed to date, we have not identified any matters to report.

## Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We cannot issue our Audit Certificate until these procedures are complete.

## 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").

To date, we have not identified any issues which required us to issue a report in the public interest.

# Other Reporting Issues (cont'd)

## Other matters

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

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

We wish to bring the following other matter to your attention; we anticipate that the current year audit report may be modified with respect to opening balances and prior period comparatives within the current year financial statements. This is because of the disclaimed prior period audit report.

# Other Reporting Issues (cont'd)

## ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

Given that we have disclaimed the 2022/23 audit of the financial statements, we have undertaken ISA (UK) 315 (Revised) procedures for the first time in 2023/24.

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
  - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
  - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We set out the findings and conclusions from our work to implement ISA 315 in the table below.

### Audit Procedures

We performed the following procedures:

- We enquired with the authority as to the relevant material IT systems that would impact the statement of accounts or the audit.
- We made subsequent enquiries to understand the key IT process for the relevant material IT systems. This included the manage access, manage change and manage operation processes for these IT systems.

### Audit findings and conclusions

We identified the following relevant material IT systems for the authority; eFinancials, Capita (Pay 360), Northgate iTrent. Our work on this area is in the review process - our understanding of the IT processes for the authority's material IT systems has not resulted in any additional audit risks for the audit thus far.



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## Independence

# Independence

## Confirmation

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

## Relationships

There are no relationships from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Services provided by EY

There are no services provided by EY from 1 April 2023 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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



# Independence - Fees

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

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As set out in our Audit Planning Report the agreed fee presented was based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statements opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities.

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

	Current Year	Scale fee	Prior Year
	£m	£m	£m
Total Fee - Code Work	£151,049	£151,049	Note 1
Proposed scale fee variation	Note 2	N/A	0
<b>Total audit</b>	<b>TBC</b>	<b>£151,049</b>	<b>TBC</b>
<b>Total other non-audit services</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fees</b>	<b>TBC</b>	<b>£151,049</b>	<b>TBC</b>

*All fees exclude VAT*

(1) PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2022/23. In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

(2) Following the completion of the 2023-24 work a final proposed fee will be determined. As explained in our Audit Planning Report, for 2023-24 the planned fee represents the base fee, i.e. not including any extended testing. We will estimate the impact of the additional audit procedures performed will include (i) to respond to the requirements of ISA315 (ii) to respond to the additional audit risks in relation to the IFRS 16, (iii) delays in obtaining information for PPE valuation, (iv) data analytics issues including mapping the trial balance to the Statement of Accounts, (v) issues with the s106 testing and errors, and any other areas where the audit work required was additional to the scope planned within the scale fee.

All additional scale fee adjustments are subject to PSAA approval.



09

Appendices

# Appendix A – Summary of assurances

## Summary of Assurances

As we have set out in the Executive Summary of this report, we anticipate issuing a disclaimer of opinion on the 2023/24 financial statements. Due to the disclaimer of opinion issued on the 2022/23 financial statements, we do not have assurance over the comparative figures disclosed in the financial statements, the opening balance position on 1 April 2023, the closing reserves balances on 31 March 2024 or the in-year movements recorded in the Comprehensive Income and Expenditure Statement. This is considered material and pervasive to the 2023/24 financial statements. The table below summarises the audit work we have completed, which is subject to final review and quality assurance procedures, on the 2023/24 financial statements to demonstrate to the committee the level of assurance that has been obtained as a result of the financial statements audit. We do not provide a separate opinion on these matters as the assurance we have gained is in the context of our audit of the financial statements as a whole, and our disclaimer of opinion on those financial statements.

Account area	Assurance rating	Summary of work performed
Property, Plant and Equipment ('PPE')	None	We have completed testing of the 2023/24 additions and disposals to the fixed asset register and performed procedures to obtain assurance over the existence of assets on the fixed asset register and the Council's right to recognize those assets. However, we do not have assurance over the PPE closing balance, due to the disclaimed opinion for 2022/23 meaning we did not test material movements in the fixed asset register for additions, disposals, revaluation and depreciation in that year and therefore have no assurance over those properties not valued in year. Also, we were not able to complete our planned procedures for PPE valuations due to being unable to obtain the GIA's (Gross Internal Areas) from the Council for properties which were valued in year. The GIA's are a fundamental input element in the valuation method and we have noted a lack of robust record retention in this area. Until we are able to rebuild assurance over PPE additions, disposals and revaluations in the disclaimed periods, we are unable to obtain full assurance over the completeness and valuation of PPE at 31 March 2024.
Investment Property	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Inventories	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Long Term Investments	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Long Term Debtors	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Short Term Investments	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Short Term Debtors	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.

# Appendix A – Summary of assurances

## Summary of Assurances

Account area	Assurance rating	Summary of work performed
Cash and Cash equivalents	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Creditors (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Borrowings (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Provisions (short and long term)	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Local Government Pension Scheme Liability	Substantial	We have completed our planned audit procedures in this area and have obtained assurance over the closing balance at 31 March 2024.
Other Disclosures	Partial	We expect to gain partial assurance - as we do not have assurance over the opening balance position at 1 April 2023, we are unable to obtain assurance that all of the in-year movements recorded are accurate.
Cash Flow Statement	Partial	We have tested all Cash Flow movements arising from 2023/24 transactions but, as we do not have assurance over movements across the disclaimed period, and therefore the opening balance for 2023/24, we do not have full assurance over the Cash Flow Statement at 31 March 2024.
Reserves (including Movement in Reserves Statement)	None	Until we have completed our work programme on the rebuilding of assurance following the disclaimed audit opinions, we are unable to obtain assurance over the useable and unusable reserves of the Council reported in the financial statements. We will provide more information on our proposed approach for rebuilding of assurance as part of our 2024/25 audit planning reports.
Comprehensive Income and Expenditure Statement (including the Housing Revenue Account)	Partial	We have completed our planned testing on the Comprehensive Income and Expenditure Statement in 2023/24 but, as we do not have assurance over the opening balance position at 1 April 2023, we are unable to obtain assurance that all of the in-year movements recorded in the statement are accurate.
Collection Fund	Partial	We have completed our planned work in this area for 2023/24 but, as we do not have assurance over the opening balance position at 1 April 2023, we are unable to obtain assurance that all of the in-year movements recorded are accurate.

# Appendix B - Required communications with the Audit Committee

## Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. 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 the audit 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.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit Planning Report at the Audit Committee on 17 June 2024
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 - February 2025

# Appendix B - Required communications with the Audit Committee (cont'd)

ANNEX 1

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty 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>	Audit Results Report - February 2025
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 - February 2025
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>▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit Results Report - February 2025
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - February 2025

# Appendix B - Required communications with the Audit Committee (cont'd)

ANNEX 1

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, 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"> <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> <p>Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report at the Audit Committee on 17 June 2024</p> <p>Audit Results Report - February 2025</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit Results Report - February 2025
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 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</li> </ul>	Audit Results Report - February 2025
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>	Audit Results Report - February 2025

# Appendix B - Required communications with the Audit Committee (cont'd)

ANNEX 1

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"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - February 2025
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 - February 2025
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 - February 2025



# Appendix C – Outstanding matters

## Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Land and building valuations and investment property valuation (DRC, EUV,FV)	EY to complete review - EY Real Estate report has now been sent to the Audit team for review. Audit team and Management to conclude on the valuations work given we do not have GIA's that we can use for testing.	EY
Pension Liability	EY Audit team to resolve any follow up points highlighted by EY Pensions and cross reference to adjustments in the final set of Financial Statements.	EY
Nitrate Credits	Testing complete. Currently in quality assurance process.	EY
Other accounts that do not have areas of audit focus attached to with them	Testing complete. Currently in quality assurance process.	EY
Journals testing	This is conducted consistently throughout the examination of significant account balances. Subsequently, a focused review of predominantly P13/materially significant items is carried out toward the conclusion of the audit process. Consequently, this aspect of the audit remains active as concurrent testing in other areas progresses.	EY and Management
Other usual conclusion procedures including going concern, subsequent event, review of final version of accounts and receipt of signed letter of representation.	All of these relates to final close-down procedures which needs to be up-to-date at the point of signing of our audit report	EY and Management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report.

# Appendix D - Accounting and regulatory update

## Accounting and regulatory update

### Accounting update

Since the date of our last report to the Audit Committee, a number of new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Test Valley Borough Council
IFRS 16 Leases	<ul style="list-style-type: none"> <li>▶ CIPFA have confirmed there will be no further delay of the introduction of the leases standard IFRS 16.</li> <li>▶ Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability.</li> <li>▶ Lease liabilities and right of use assets will be subject to more frequent remeasurement.</li> <li>▶ The standard must be adopted by 1 April 2024 at the latest</li> </ul>	<ul style="list-style-type: none"> <li>▶ We have assessed the Council's readiness to implement IFRS 16 as part of our 2023/24 programme of work. That assessment considered:               <ul style="list-style-type: none"> <li>▶ The Council's processes to collect the required data.</li> <li>▶ Whether reasonable accounting policy choices had been made.</li> <li>▶ Whether relevant finance staff are familiar with the requirements of the CIPFA Code in this area and training has been provided.</li> <li>▶ The transitional and ongoing accounting arrangements that have been established.</li> <li>▶ Systems and processes to establish and distinguish between lease remeasurements and modifications.</li> </ul> </li> <li>▶ Based on this assessment we have concluded that the Council has reasonable arrangements in place to support the adoption of IFRS 16 in 2024/25.</li> </ul>

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