

Gosport Borough Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





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The Members
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16 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members of Gosport Borough Council and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 audit results report to the Standards and Governance Committee on 10 September 2015 and to the Policy and Organisation Board on 23 September 2015, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for Gosport Borough Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Helen Thompson
Executive Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 11 June 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's AGS;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

| Area of work | Result |
|--|--|
| Audit of the financial statement of Gosport Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland). | On 28 September 2015 we issued an unqualified audit opinion on the Council's financial statements. |
| Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources. | On 28 September 2015 we issued an unqualified value for money conclusion. |
| Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts. | We reported our findings to the National Audit Office on 28 September 2015. |
| Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance. | No issues to report. |
| Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit. | No issues to report. |
| Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act. | No issues to report. |

Area of work

Result

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was issued on 1 September 2015 for the Standards and Governance Committee meeting on the 10 September 2015.

The report was updated and re-issued on 16 September 2015 for the Policy and Organisation Board meeting on 23 September 2015.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 28 September 2015.

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification of grant claims work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 28 September 2015.

Our detailed findings were reported to the Standards and Governance Committee on 10 September 2015 and subsequently updated and reported to the Policy and Organisation Board on 23 September 2015.

The main issues identified as part of our audit were:

Significant risk: Risk of management override

We identify and respond to this risk on every audit. We tailored our audit procedures to reflect the fact that management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

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;
- ▶ reviewing accounting estimates for evidence of management bias, including PPE revaluations and indexation, the business rates appeals provision and pension estimates; and
- ▶ evaluating the business rationale for significant unusual transactions.

From the work carried out we found no evidence of management bias or override of controls.

Other key findings:

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting processes including:

- ▶ qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- ▶ any significant difficulties encountered during the audit; and
- ▶ other audit matters of governance interest.

We identified a number of adjustments relating to the housing finance aspect of the financial statements. These were corrected by management. This is an area where the Council should seek further improvement, although we note this team has been affected by staffing changes.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We considered whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 28 September 2015.

We noted the following issues as part of our audit.

Value for money risk: financial resilience

The Council's net expenditure on general fund was £0.67 million lower planned in 2014/15. It transferred £0.65 million more to reserves than had been budgeted, increasing the revenue financing reserve by £0.68 million and establishing a stability and resilience reserve totalling £0.29 million.

We reviewed your Medium Term Financial Strategy (MTFS). We consider the MTFS to be robust, and underpinned by reasonable assumptions including the level of pay and non-pay inflation; the funding of capital schemes and the inclusion of their revenue implications, with realistic savings projected through to 2019/20. As with other councils there is a significant level of uncertainty over the future of central government funding. You have taken this into account in your assumptions about the level of central government funding over the period of the MTFS.

You are clearly looking to review services and to seek opportunities to collaborate with other councils to identify further efficiencies and savings.

We have concluded that you have appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Standards and Governance Committee on 10 September 2015 and then to the Policy and Organisation Board on 23 September 2015. In our professional judgement the firm is independent and the objectivity of the engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the annual certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

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4. Looking ahead

Looking ahead the Council will need to address the following areas of change:

| Description | Impact |
|---|--|
| <p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Asset under depreciated replacement cost from the existing depreciated historic cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p> | <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities. The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirement may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> ▶ footways; ▶ unadopted roads on industrial or HRA estates; ▶ cycleways; and ▶ street furniture. <p>The Council's officers have begun to assess the impact of this change on the 2015/16 financial statements.</p> |
| <p>Faster close</p> <p>The Department for Communities and Local Government is bringing forward the date of preparation of the financial statements from 2017/18.</p> | <p>This will result in earlier production of the statements and will be a significant challenge for both the Council and us as your auditor. We will work with the Council to prepare for this in advance.</p> |

5. Fees

Our fee for 2014/15 is in line with the scale fee set by the Audit Commission and reported in our audit results report.

| | Final fee 2014/15 | Planned fee 2014/15 | Scale fee 2014/15 | Final fee 2013/14 |
|--|----------------------|------------------------|----------------------|----------------------|
| Total Audit Fee – Code work | £70,725 | £70,725 | £70,725 | £70,725 |
| Total Audit Fee – Certification of claims and returns | £18,270* | £18,270 | £18,270 | £19,934 |

*Our fee for certification of claims and returns is yet to be finalised for 2014/15 and will be reported to those charged with governance in early 2016 within the annual certification report for 2014/15.

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