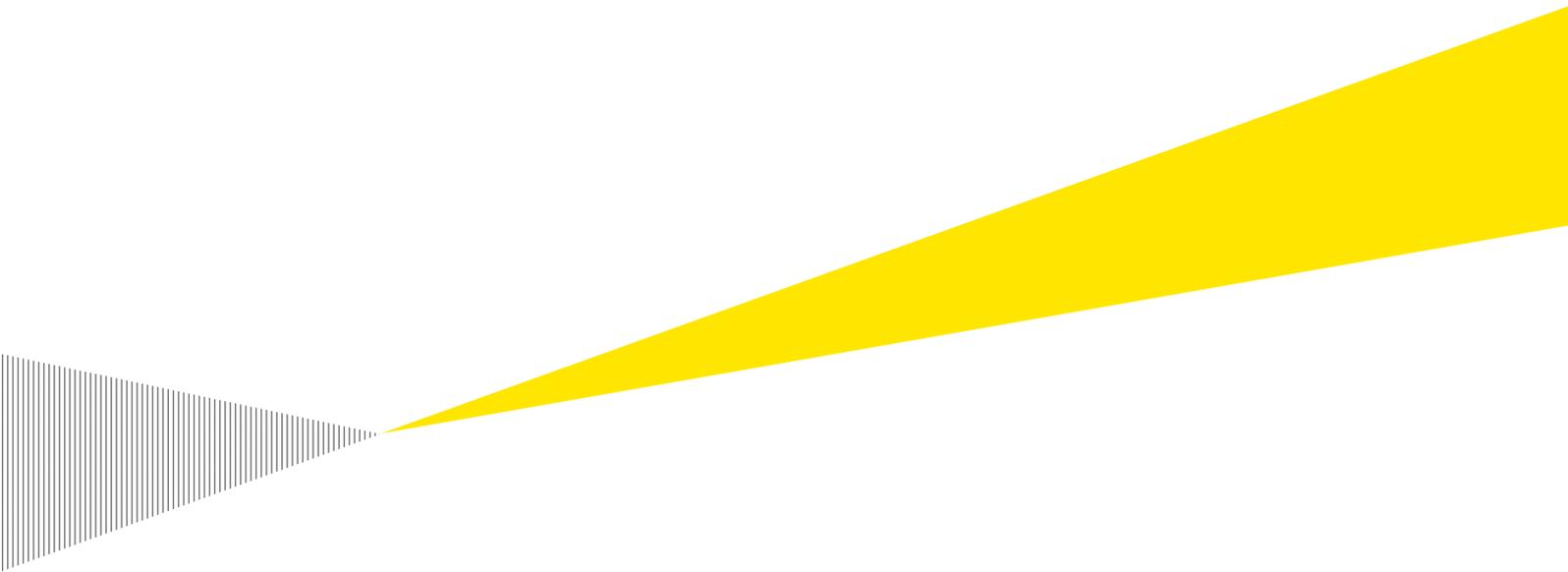


# Gosport Borough Council

## Annual Audit Letter

Year ending 31 March 2014

October 2014



Building a better  
working world





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The Members of Gosport Borough Council  
Town Hall  
Gosport  
Hampshire  
PO12 1EB

16 October 2014

Dear Members,

## Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Gosport Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Gosport Borough Council in the following report:

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2013/14 Audit Results Report for Gosport  
Borough Council

Issued 1 September 2014 and presented to  
the Standards & Governance Committee on  
11 September 2014.

Updated and issued 16 September 2014 and  
presented to members of the Policy &  
Organisation Board on 29 September 2014.

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The matters reported here are the most significant for the Authority.

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

Yours faithfully

Helen Thompson  
For and behalf of Ernst & Young LLP  
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive 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 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 6 August 2014 and is 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 Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place 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;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Gosport Borough Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland).	On 29 September 2014 we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Policy & Organisation Board) communicating significant findings resulting from our audit.	On 16 September 2014 we issued our report to the Authority. On 29 September 2014 we presented our report to the Board meeting.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 30 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.

Issue 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.

On 29 September 2014 we issued our audit completion certificate.

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Issue a report to those charged with governance of the Authority summarising the certification of grant claims and returns work that we have undertaken.

On 12 February 2014 we issued our annual certification report to those charged with governance for the 2012/13 financial year.

We will issue our annual certification report to those charged with governance for 2013/14 upon completion of our grants work.

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## 2. Key findings

### Financial statements audit

We audited the Authority'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. We issued an unqualified audit report on 29 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

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#### Significant risk 1: Risk of misstatement due to fraud and error

##### Risk

As identified in ISA (UK & Ireland) 240, 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. This risk is inherent across all local government bodies and we do not consider the risk to be greater at Gosport Borough Council than any other local government body.

We tested material journal entries and substantively tested all significant accounting estimates, and reviewed for any unusual transactions that had been posted to the ledger. We found no evidence of management bias or override.

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#### Other key findings:

##### Business rates appeals provision:

We assessed management's approach to estimating the provision and found this to be based on a reasonable approach and that the provision is soundly based.

We audited the business rate balances in the Collection Fund and found them to comply with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2013/14'.

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#### Uncorrected misstatements:

The Council corrected three errors in the previous year's financial statements during 2013/14. These included the categorisation of transport contributions (£215,000) and housing benefits administration grant (£696,000), and a reanalysis of the adjustment between current cost and historic depreciation (£43,000). The Council decided to treat these as prior period adjustments (PPAs) in the 2013/14 financial statements. In our view, the sums involved were not sufficiently material to justify a prior period adjustment under accounting standards (International Accounting Standard 8). Management chose not to reverse the adjustments, and we therefore requested that the reasons for this decision were included in the letter of management representation. We were satisfied that the financial statements at 31 March 2014 were materially correct.

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## Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ the organisation has proper arrangements in place for securing financial resilience; and
- ▶ the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 29 September 2014. Our audit did not identify any significant matters.

### Key finding 1:

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#### Arrangements for securing financial resilience:

We assessed the Council's Medium Term Financial Plan and found that the Council has projected its budgets forward to March 2018, and has identified the level of savings required on an annual and cumulative basis.

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#### Arrangements for securing economy, efficiency and effectiveness:

Our work focused on the Council's budget setting processes and ability to set balanced budgets within the current spending constraints, without detrimentally affecting service provision. We found that the Council operates well in this context and has sufficient expertise to set realistic budgets whilst continuing to provide its statutory functions.

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## Objections received

We did not receive any questions or objections to the 2013/14 accounts from members of the public.

## Whole of government accounts

We reported to the National Audit Office on 30 September 2014 the results of our work performed in relation to the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

The Authority's submission was under the thresholds for a full consistency check, therefore we were only required to review the consistency of the submission to the audited financial statements for:

- ▶ property, plant and equipment; and
- ▶ pensions liabilities.

We did not identify any areas of concern.

## **Annual governance statement**

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

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

## **Certification of grants claims and returns**

We presented our Annual Certification Report for 2012/13 to Standards and Governance Committee on 3 April 2014. We certified three claims and returns worth £51 million. We did not identify any significant issues from the certification of the claims and returns. We issued one qualification letter in relation to the Housing and Council Tax Benefits claim highlighting a number of relatively minor issues that arose during our work. The Housing and Council Tax Benefits claim and Pooling of Housing Capital receipts return were both amended by minor amounts as a result of our work.

We will issue the Annual Certification Report for 2013/14 in January 2015.

### 3. Control themes and observations

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 is not designed to express an opinion on the effectiveness of internal control we are required to communicate to those charged with governance at the Authority any significant deficiencies in internal control.

We did not identify 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.

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