

Gosport Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

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 (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Gosport Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, the NAO did not require us to perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 14 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 29 September 2017.

We anticipate issuing a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim in December 2017.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Thompson

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Policy and Organisation Board on 27 September 2017, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 2 March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, the NAO did not require us to perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, 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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it 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 National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 September 2017.

Our detailed findings were reported to the Policy and Organisation Board on 27 September 2017.

In our report, which we issued on 14 September 2017, we noted there were some areas where our work was outstanding and was to be completed. We completed work in those areas and this enabled us to issue an unqualified audit report on the Council's financial statements. There were no matters arising from the completion of our work that needed to be reported to the Policy and Organisation Board.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We did not identify any evidence of management override. We did not identify any errors in the financial statements or indications of fraud. We did not identify any inappropriate journal entries (or other adjustments) that impacted on the financial statements.</p> <p>We did not identify any instances of inappropriate judgements being applied in making estimates. We gave specific consideration to the calculation of Minimum Revenue Provision (see also below) and bad debt provisions.</p> <p>We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> <p>We did not identify any inappropriate changes to accounting policies or deviations from Code guidance.</p> <p>We did not identify any indications of management override through our testing of the Movement in Reserves Statement.</p>

Other Key Findings	Conclusion
<p>Minimum Revenue Provision (MRP)</p> <p>Local authorities are normally required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements.</p> <p>This provision is known as MRP. MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement.</p> <p>The Council proposed changes to both the historic basis on which it has charged MRP and its future approach to calculating the provision.</p>	<p>We commissioned an EY expert to review the changes proposed by the Council in this area.</p> <p>Our overall findings were that the Council's changes both to the historic basis on which it has charged MRP and its future approach to calculating the provision are compliant with regulations and accurate based on underlying records. No issues were identified with the 2016/17 MRP charge or calculated historic overprovision. The overprovision is yet to be released; the way in which the Council plans to treat the overprovision will be reviewed as part of our future audits once confirmed.</p>
<p>Expenditure and Funding Analysis and Comprehensive income and expenditure statement</p> <p>Amendments were made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note (EFA).</p> <p>The Code now requires that the analysis presented in the CIES and EFA to be based on the organisational structure under which the authority operates. This change required new disclosure notes and a full retrospective restatement of impacted primary statements.</p>	<p>We reviewed the EFA, CIES, MiRS and notes to ensure compliance with the Code. We reviewed the working papers supporting the statements and notes, for both the current and prior year.</p> <p>The disclosures made were generally in line with the Code. We identified a number of presentational changes and additional disclosures that management agreed to make in the final statement of accounts. The main points identified were the need to add a narrative note explaining the prior period adjustments resulting from the Telling the Story changes, to further disaggregate one disclosure and to show prior period comparators as "restated".</p> <p>We reviewed the working papers supporting the derivation of these figures, how the ledger system has been re-mapped to reflect the Council's organisational structure, and how overheads are apportioned across the service headings. We had no matters to report, other than that the remapping of the ledger is an ongoing process currently being undertaken by the finance team. Good quality working papers were provided which allowed us to understand the manual process undertaken to format data from the ledger in line with the new presentation of the financial statements for 2016/17.</p> <p>We agreed the restated comparative figures back to the Council's supporting working papers and ledger.</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.29 million (2015/16: £1.33 million), which is 2% of gross expenditure reported in the accounts of £64.54 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Standards and Governance Committee and Policy and Organisation Board that we would report all audit differences in excess of £64,500 (2015/16: £66,500)

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements identified during the course of our audit.

We identified a small number of audit differences which were adjusted by management. These were principally as follows:

- ▶ A timing issue in the posting of property, plant and equipment (PPE) transactions, resulting in a netting difference between PPE and the revaluation reserve of £219,000;
- ▶ Errors in the external valuer's report for General Fund PPE, resulting in an understatement of the PPE balance of £351,000; and
- ▶ A small number of disclosure errors, none of which is judged individually of sufficient significance to be reported separately here.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The coins have a textured, ridged edge and some have faint markings or letters on their surfaces. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

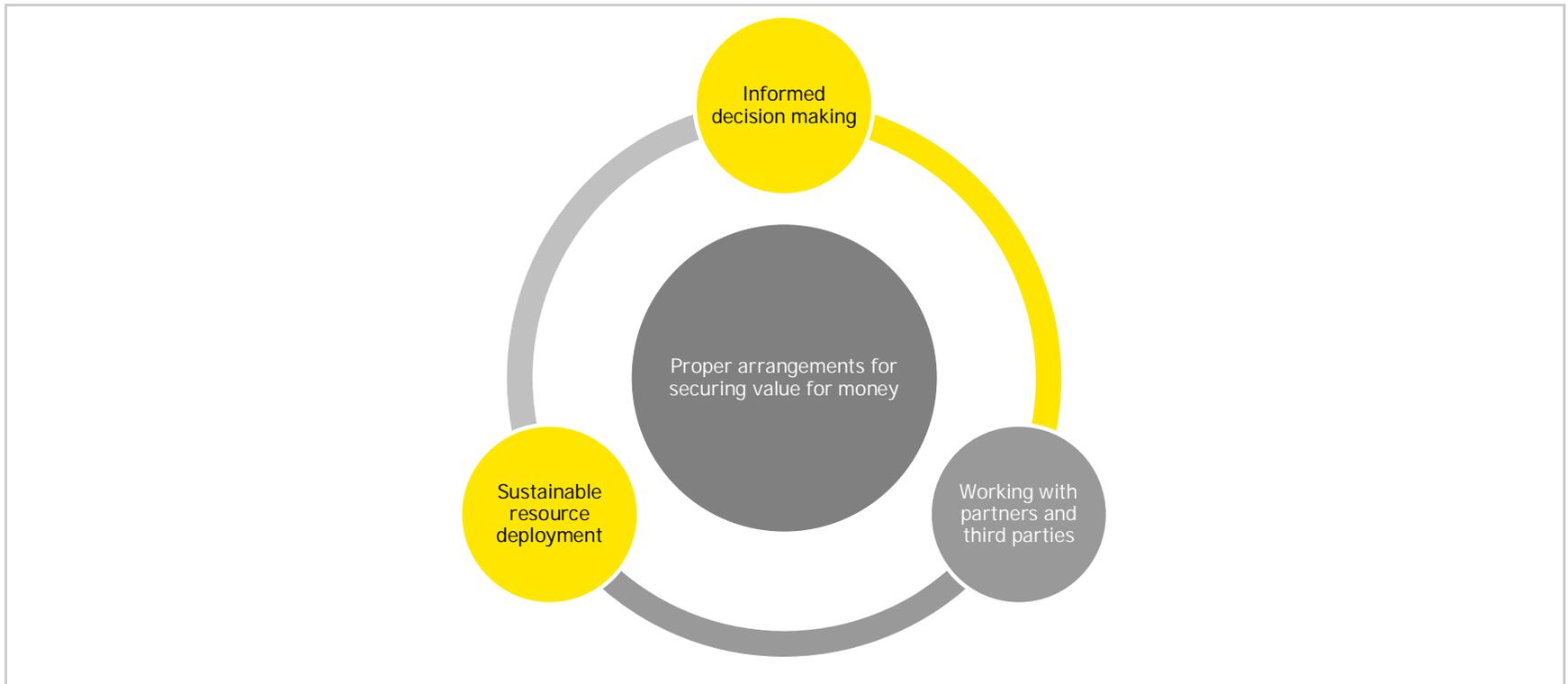
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified one significant risk in relation to these arrangements. We performed the procedures outlined in our audit plan and the table below presents the findings of our work.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 29 September 2017.

Significant Risk	Conclusion
<p>The change in senior management arrangements and its potential impact on governance and decision making.</p> <p>The Council took the decision to move to a shared senior management arrangement with Portsmouth City Council during 2016/17.</p> <p>These new arrangements are intended to provide significant ongoing revenue savings to Gosport Borough Council as well as to create efficiencies and improve services.</p> <p>This represents a significant change for the Council, presenting an opportunity for significant savings and improved ways of working, but which also brings potential risks around maintenance of governance arrangements and informed decision making, especially during the transition period.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none">• reviewing how the new arrangements have worked in practice since their inception;• reviewing the quality of information provided to committees, boards and full council to enable them to make informed decisions since the new arrangements came into place; and• assessing the financial impact of the arrangements both in terms of direct revenue savings and the Council's most recent medium term financial planning. <p>No significant weakening of arrangements was identified from the work undertaken.</p> <p>Significant savings have been achieved to date, with the ongoing programme of service reviews expected to add further to these. A focus has been maintained on providing good quality services to the public, with changes in Housing, a key front line service, expected to improve the overall experience of users of the service. More broadly the Council has benefitted from being able to draw on a wider pool of staff expertise through its partnership with Portsmouth City Council. Board papers have been of good quality, with clear and detailed information provided to members for decision making.</p>



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, the NAO did not require us to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Policy and Organisation Board on 27 September 2017. 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 regulatory and professional requirements.

Control Themes and Observations

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 Authority 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. We adopted a fully substantive approach other than for housing benefits, and have therefore not tested the operation of controls of other financial systems.

Our audit did not identify any controls issues to bring to the attention of the Policy and Organisation Board.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<p>Earlier statutory deadline for production and audit of the financial statements from 2017/18</p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown; • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales; and • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. <p>To prepare for this change both we and the Council targeted achievement of the earlier completion of work in 2016/17. This clearly represents significant progress.</p> <p>Moving forward, we will need to continue to work together collaboratively to ensure the necessary changes are made to working practices both at the Council and among the audit team, to ensure the new statutory deadlines are met in 2017/18.</p>
<p>IFRS 16 Leases</p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 14 September 2017 Annual Results Report.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	54,255 ^a	54,255 ^a	53,044	53,044
Total Audit Fee – Certification of claims and returns	To be confirmed ^c	10,962 ^b	13,703	16,701

^aThe additional fee relates to additional work in reviewing the change in the Council's approach to calculating its Minimum Revenue Provision. This has been agreed with management and with PSAA (Public Sector Audit Appointments) as required.

^bIn our June 2017 progress report, we noted that we have agreed that the Council will perform some of the initial Housing Benefit certification testing itself in 2016/17. This is in return for an approximate 20% reduction in our fee. We will do sufficient checking to satisfy ourselves that this testing has been performed appropriately.

^cThe final fee for the certification of claims and returns for 2016/17 remains subject to completion of our work, the deadline for which is 30 November 2017.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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