Basingstoke and Deane Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP
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.psaa.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.
Executive Summary
Executive Summary

We are required to issue an annual audit letter to Basingstoke and Deane 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.

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opinion on the Council’s:</strong></td>
<td></td>
</tr>
<tr>
<td>► Financial statements</td>
<td>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.</td>
</tr>
<tr>
<td>► Consistency of other information published with the financial statements</td>
<td>Other information published with the financial statements was consistent with the Annual Accounts.</td>
</tr>
<tr>
<td><strong>Concluding on the Council’s arrangements for securing economy, efficiency and effectiveness</strong></td>
<td>We concluded that you have put in place proper arrangements to secure value for money in your use of resources.</td>
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<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
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<tbody>
<tr>
<td><strong>Reports by exception:</strong></td>
<td></td>
</tr>
<tr>
<td>► Consistency of Governance Statement</td>
<td>The Governance Statement was consistent with our understanding of the Council.</td>
</tr>
<tr>
<td>► Public interest report</td>
<td>We had no matters to report in the public interest.</td>
</tr>
<tr>
<td>► Written recommendations to the Council, which should be copied to the Secretary of State</td>
<td>We had no matters to report.</td>
</tr>
<tr>
<td>► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014</td>
<td>We had no matters to report.</td>
</tr>
</tbody>
</table>
Annual Audit Letter for the year ended 31 March 2017 – Basingstoke and Deane Borough Council

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Reporting to the National Audit Office (NAO) on our review of the Council’s Whole of Government Accounts return (WGA).</td>
<td>We had no matters to report. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.</td>
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As a result of the above we have also:

<table>
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<tr>
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<tbody>
<tr>
<td>Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.</td>
<td>Our Audit Results Report was issued on 25 September 2017</td>
</tr>
<tr>
<td>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.</td>
<td>Our certificate was issued on 25 September 2017</td>
</tr>
</tbody>
</table>

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

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

Paul King

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 25 September 2017 meeting of the Audit and Accounts Committee, 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 27 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 (WGA) return. The Council is below the specified audit threshold of £350 million. Therefore, we did not 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 (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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
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 25 September 2017.

Our detailed findings were reported to the 25 September 2017 meeting of the Audit and Accounts Committee.

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

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Conclusion</th>
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<tr>
<td><strong>Risk of management override</strong></td>
<td>We did not identify any transactions during our audit which appeared unusual or outside the Council’s normal course of business. This conclusion was based on:</td>
</tr>
<tr>
<td>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement. In addition to the risk details outlined from our Audit Plan above, we have identified an additional risk that management could use the Movement in Reserves (MIRS) adjustments to add or remove items from the Comprehensive Income and Expenditure Statement (CIES) to alter the reserve position of the Council. Such adjustments would not change the outturn in the CIES but could inflate reserves artificially.</td>
<td></td>
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</table>

- testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- reviewing accounting estimates for evidence of management bias (NNDR provisions, IAS 19 pension transactions, and property plant and equipment balances);
- evaluating the business rationale for any significant unusual transactions;
- completion of the Disclosure Checklist provided by CIPFA to ensure that the correct items are disclosed in the MIRS adjustments; and
- identifying and substantively testing movements on the Note “Adjustment between Accounting Basis and Funding Basis under Regulations” (MIRS adjustments note).
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.

**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.

<table>
<thead>
<tr>
<th>Item</th>
<th>Thresholds applied</th>
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<tr>
<td>Planning materiality</td>
<td>We planned our procedures using a materiality of £2 million. We reassessed this using the actual year-end figures, which has increased this amount to £2.1 million. The threshold for reporting corrected audit differences has increased from £1.5 million to £1.58 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.</td>
</tr>
<tr>
<td>Reporting threshold</td>
<td>We agreed with the Audit and Accounts Committee that we would report all corrected audit differences in excess of £1.5 million and all uncorrected differences over £50,000.</td>
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</table>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: We fully audited these figures give the inherent sensitivity of the transactions.
- Related party transactions. We fully audited these figures given the inherent sensitivity of the transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.
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 did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan and 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 25 September 2017.
Other Reporting Issues
Other Reporting Issues

Whole of Government Accounts
The Council is below the specified audit threshold of £350 million. Therefore, we did not 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 members 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 Audit and Accounts Committee on 25 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

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.
Focused on your future
Focused on your future

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<thead>
<tr>
<th>Area</th>
<th>Issue</th>
<th>Impact</th>
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<tr>
<td>Earlier deadline for production and audit of the financial statements from 2017/18</td>
<td>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.</td>
<td>These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Council has taken a number of steps which includes a successful ‘dry run’ of 2016/17 early accounts production which meant that the accounts were ready for audit in May, although the Audit and Accounts Committee was not brought forward to facilitate early sign off. Therefore, the Council is well placed to meet the new requirement.</td>
</tr>
<tr>
<td>IFRS 9 Financial Instruments</td>
<td>Applicable for local authority accounts from the 2018/19 financial year and will change: ▶ How financial assets are classified and measured ▶ How the impairment of financial assets are calculated ▶ The disclosure requirements for financial assets. Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</td>
<td>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to: ▶ Reclassify existing financial instrument assets ▶ Remeasure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items. Officers from the council are actively involved in developing the CIPFA Accounting Code and Treasury Management Code and have representatives on some of the CIPFA panels and subgroups looking at how IFRS9 should be implemented.</td>
</tr>
<tr>
<td>IFRS 15 Revenue from Contracts with Customers</td>
<td>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▶ Leases; ▶ Financial instruments;</td>
<td>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all</td>
</tr>
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</table>
The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. There are transitional arrangements within the standard; however, as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.

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<tbody>
<tr>
<td></td>
<td>• Insurance contracts; and</td>
<td>material income sources from customers the Council will have to:</td>
</tr>
<tr>
<td></td>
<td>• for local authorities; Council Tax and NDR income.</td>
<td>• Disaggregate revenue into appropriate categories</td>
</tr>
</tbody>
</table>

The Council is awaiting clarification of the exact requirements before investing time in the above work.
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 25 September 2017 Audit Results Report.

<table>
<thead>
<tr>
<th>Description</th>
<th>Final Fee 2015/16</th>
<th>Planned Fee 2016/17</th>
<th>Scale Fee 2016/17</th>
<th>Final Fee 2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Audit Fee - Code work</td>
<td>55,669</td>
<td>55,669</td>
<td>55,669</td>
<td>55,669</td>
</tr>
<tr>
<td>Total Audit Fee - Certification of claims and returns</td>
<td>17,304</td>
<td>16,410</td>
<td>16,410</td>
<td>Tbc*</td>
</tr>
</tbody>
</table>

*the certification work on the 2016/17 Housing Benefit claim did not start until September 2017 and we will confirm the final fee in our certification of claims and returns report, which will be brought to Audit and Accounts Committee in early 2018.

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