

Eastleigh Borough Council

Year ending 31 March 2014

Annual Audit Letter

30 October 2014

Ernst & Young LLP



EY

Building a better
working world



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The Members
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30 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Eastleigh 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 Eastleigh Borough Council in the following report:

2013/14 Audit results report for Eastleigh
Borough Council

Issued 16/09/14

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

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

Yours faithfully

K.L. Handy
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 Audit Results Report 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 21 May 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 its 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 Eastleigh Borough Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland).	On 29/09/14 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 29/09/14 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit and Resources Committee) communicating significant findings resulting from our audit.	On 16/09/14 we issued our report in respect of the Authority.
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 19/09/14.
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 29/09/14 we issued our audit completion certificate.

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

This will be issued on completion of the 2013/14 certification work.

2. Key findings

2.1 Financial statement 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 29/09/14.

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

The main issues identified as part of our audit were:

Accounting for local retention of business rates

We considered how the Council had implemented the accounting changes required by the introduction of local retention of business rates, and the reasonableness of its provision for non-domestic rating appeals.

Our work demonstrated that the Council's estimate for non-domestic rating appeals appeared reasonable and was in accordance with the reporting framework.

Risk of management override

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.

We did not identify matters that required reporting to those charged with governance.

Asset Valuations

We considered the Council's approach to revaluing its property portfolio in 2013/14. Our work included a review of the instructions to the Valuation Office, and a reasonableness review of the output against independent market data.

Overall we are satisfied that the Council's arrangements to prepare updated asset valuations comply with professional practice and are appropriate given the nature of the assets valued.

2.2 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 29/09/14. We noted the following issues as part of our audit.

Financial resilience

As disclosed on the Council's Balance sheet, the Authority had £58m of short term borrowing at 31 March 2014. The Council's capital programme includes some significant projects over the next few years including the AGEAS Bowl hotel, a new leisure centre and a number of more minor developments. As a result, the Council's latest Treasury Management Strategy indicates its external debt will rise to £118m by 31 March 2017, of which £115m is expected to be short term. This level of debt will increase the Council's exposure to fluctuations in interest rates.

The Authority, at 31 March 2014, had a General Fund Reserve balance of £4 million. It forecasts that these reserves will reduce to the minimum prudent level of £1m over the next two financial years. Maintaining reserves at this level from this point will depend on the continued success of its contract negotiations and control of capital budgets; the accuracy of interest rate assumptions contained in the medium term financial projections; and the development and delivery of the Council's savings and efficiency programme.

While we concluded the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014, we expect our future audits to focus on the continuing robustness of the Council's arrangements for securing financial resilience.

Housing joint venture

We considered the Council's proposals to establish a housing joint venture with Fareham Borough Council, First Wessex and Radian Housing Associations. Although it is early days, we are satisfied the Council has adopted a sound process to date to consider the nature of this development and to establish appropriate governance structures in advance of projects being initiated.

The Council is aware of the issues that remain to be resolved, including the detailed relationship between the parties; the requirement to meet 'best consideration' for asset transfers between the parties; and, finally, the need to apply a 'market test' to transactions between the parties.

Fleming Park

The Council's Cabinet approved, in principle, the redevelopment of the Fleming Park leisure centre at its meeting on 7 November 2013. We considered the proposals as set out in the reports to Cabinet and provided our initial comments on the proposals as they stood at that time to the Council's officers in December 2013. We have subsequently reviewed the updated report on this matter to Cabinet in July 2014. In terms of the proposal itself, it is very important for the Council to exercise discretion only when it is possession of all relevant

facts. Members must be able to demonstrate specifically that they are discharging their fiduciary duty and acting in the best interests of Council Tax payers.

We understand that the Council intends to provide a full update to Cabinet before further proceeding. We would support this course of action as it presents an opportunity for the Council to decide when it is in possession of all relevant facts. To this end, we recommended any final report covers the outstanding points we set out in our 16/09/14 report. These included the need to:

- ▶ agree the project capital costs, and the potential termination costs if the project does not proceed;
- ▶ benchmark the build costs;
- ▶ finalise the position over any profit share agreements;
- ▶ update the assumption of £3m in external funding; and
- ▶ clarify the budgeted level of fees and how these will be monitored.

2.3 Objections received

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

2.4 Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

2.5 Whole of government accounts

We reported to the National Audit office on 29/09/14 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.6 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.

2.7 Certification of grants claims and returns

We will issue the Annual Certification Report for 2013/14 in December 2014.

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 was not designed to express an opinion on the effectiveness of internal control we communicate to those charged with governance at the Authority, as required, 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 the Council's financial statements of which it was not already aware.

4. Audit fees

A breakdown of our fee is shown below.

	Final fee 2013/14 £	Planned fee 2013/14 £	Scale fee 2013/14 £
Total Audit Fee – Code work	67,200	67,200	67,200
Certification of claims and returns ¹		13,728	13,728

Our actual fee is in line with the agreed fee.

We undertook no non-audit work at the Council in 2013/14.

Notes:

¹ Our fee for certification of grants and claims is yet to be finalised for 2013/14. We plan to report this to those charged with governance in December 2014 within our Annual Certification Report for 2013/14.

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