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Basingstoke and Deane Borough Council

Report to those charged with governance

Report to the Audit and Accounts Committee on the audit for the year ended 31 March 2015 *(ISA (UK&I)) 260)*

Government and Public Sector

September 2015

Contents

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our draft audit plan to you in February 2015 and issued the final audit plan in July 2015. The key changes between the draft and final audit plan were as follows:

1) There has been a change in Engagement Leader from Harriet Aldridge to Anna Blackman.

2) We have increased the rating of the risk in relation to the valuation of property, plant and equipment and investment properties from elevated to significant. This is as a result of the finalisation of our planning work and further consideration of the likelihood of a material misstatement given the size of the Council's asset base. Further detail is provided on page 5.

3) We have changed the basis of overall materiality from total expenditure to total assets. We believe that total assets are a more appropriate basis of materiality, given the Council's significant asset base and strategy around regeneration of the local area. Our overall materiality level is therefore £9,693,900. However, given the needs of stakeholders to understand the in-year financial position of the Council particularly with respect to the impact on Council Tax, we have included specific materiality for items that impact Council Tax, which is based on total expenditure. This specific materiality level is £1,793,800. The triviality level agreed with the Audit and Accounts Committee in February 2015 remains £50,000. We have discussed the change to materiality with Council Officers. Further detail is provided on page 6.

4) We highlighted in the audit plan that PwC were in the process of bidding for financial support work with the Council. The procurement process for this support is now concluded and PwC were not successful. As such there is no threat to our independence that we need to report to the Audit & Accounts Committee. Details of our assessment of our independence are included on page 11.

These changes, along with the remainder of the report, were discussed with you on 21 September 2015.

Audit Summary

We have completed our audit work and issued an unqualified audit opinion on the Statement of Accounts on 30 September 2015.

Please note that this report will be sent to Public Sector Audit Appointments Limited (PSAA) in accordance with the requirements of its standing guidance.

Audit approach

Our audit approach was set in our draft audit plan which we presented to you in February 2015 and our final audit plan issued in July 2015.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Audit approach and results of work performed
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant ●	As part of our assessment of your control environment we considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements and performed the following procedures: - reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; - tested the appropriateness of journal entries and other year-end adjustments by targeting higher risk items such as those that affect the reported deficit/surplus; - reviewed accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions); - evaluated the business rationale underlying significant transactions outside the normal course of business; and - performed unpredictable procedures targeted on fraud risks. Our work did not identify any instances of management overriding controls.

Risk	Categorisation	Audit approach and results of work performed
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.	Significant ●	We performed the following procedures: - obtained an understanding of revenue and expenditure controls; - evaluated and tested the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting; - tested the appropriateness of journal entries and other adjustments; - reviewed accounting estimates for income and expenditure, for example, provisions; - performed analytical review on income and expenditure at year end and reconciled your management information to the information presented in the statements on a gross basis; and - performed detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk. Our work did not identify any concerns regarding fraud in revenue and expenditure recognition however we did note immaterial errors in relation to cut off which are explained on page 7.

Risk	Categorisation	Audit approach and results of work performed
Valuation of property, plant and equipment and investment properties This is the largest combined figure in the Authority's's balance sheet and is subject to continuing uncertainties, which has a potential impact upon the valuation of your property, plant and equipment and investment properties. Whilst the Authority is only required to re-value property, plant and equipment at least once every 5 years, there is a requirement to assess the carrying value of the assets for impairment every year. In practice the Authority has re-valued investment property on a yearly basis, while a significant proportion of the property plant and equipment balance was re-valued in 2013/14. ISAs (UK&I) 500 and 540 require us to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates. Specific areas of risk include: • The accuracy and completeness of detailed information on assets; • Whether the Authority's assumptions underlying the classification of properties are appropriate; • The valuer's methodology, assumptions and underlying data, and our access to these; and • The valuation of the Manydown land.	Significant ●	We performed the following procedures: - agreed the source data used by your valuer to supporting records; - assessed the work of your valuer through use of our own internal specialists; - agreed the outputs to your fixed asset register and statements; and - reviewed the impairment assessment of assets not valued at the year-end. Since we presented the plan to you in February 2015, the categorisation for this risk has been increased to significant as a result of updated PwC guidance. This increase in the risk rating was communicated in the updated plan issued in July 2015. This change did not significantly impact the type of work we planned to undertake on the valuation of PPE and investment properties, but it did impact the level of assurance we required from our work, for example, by driving higher sample sizes. Our work did not identify any issues in the valuation of property, plant and equipment and investment property.

Intelligent scoping

In our draft audit plan presented to you in February 2015 we reported our planned overall materiality which we used in planning the overall audit strategy, based on the total expenditure for 2013/14. This was subsequently updated in the final plan issued in July 2015 with materiality based on 2% of total assets per the draft statements for 2014/15.

This is a change from previous years and was made following completion of our planning work during which we concluded that total assets was an appropriate basis for materiality given the significance of the Council's asset portfolio and the focus on using this asset portfolio to support the regeneration of Basingstoke. Assets are therefore a key area of focus for the main users of the accounts.

We do, however, recognise that the main users of the accounts (considered to be Councillors, the local population as well as bodies who are in receipt of funding through the Collection Fund) are also concerned with the in-year financial position of the Council particularly to the extent that this impacts Council Tax. As a result we have set a 'specific materiality' at a lower level for areas that impact Council Tax based on 2% of expenditure.

This specific materiality level has been applied to all financial statement line items in the Comprehensive Income and Expenditure Statement excluding those that relate to the revaluation of property, plant and equipment and investment properties. This specific materiality level will also be applied to areas of the Balance Sheet that impact Council Tax (including debtors, creditors, provisions, grants, the pension scheme liability and reserves) as well as the Collection Fund.

We also determined that it is appropriate to have specific materiality of nil for related parties and Officers Remuneration as these discloses/transactions are qualitatively material

Our revised materiality levels are as follows:

	£
Overall materiality	£9,693,900
Specific materiality for areas that impact Council Tax and the Collection Fund	£1,793,800
Specific materiality for related parties and Officer's Remuneration	nil
Clearly trivial reporting de minimis	£50,000

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis of £50,000 with the Audit and Accounts Committee at its meeting in February 2015 and this has remained consistent.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit and issued an unqualified audit opinion on 30 September 2015.

As part of our work on the Statement of Accounts we have reported to the NAO in line with their requirements which was to provide details of the outcome of our audit (i.e. that the opinion was unqualified) but we were not required to issue an opinion on the WGA schedules prepared by the Council.

Accounting issues

Financial investments – The Authority has a total of £124m of long and short term investments (2013/14 £109m) of which £99m relates to investments held at market value and the value quoted is based on the market rates used by the Authority. As part of our testing, we obtained independent information on the market values for each of these investments to confirm that the market values were correct. Our work identified a difference of £0.28m when we compared the Authority's market value with other publically available information. As the differences identified were not considered material, we have concluded that the fair value of the financial investments in the Authority's accounts are based on reasonable estimates and are therefore materially correct.

Property, plant and equipment (PPE) and investment property valuations – PPE and investment property represent the largest combined balance in the Authority's balance sheet, with a total of £310m (2013/14 £305m). The Authority measures its properties at fair value involving a range of assumptions and the use of internal and external valuation expertise. The Authority has revalued all of its investment property balance and 66% of its land and buildings balance as at 31 March 2015. Our review of the valuations has confirmed that an appropriate approach had been taken. Our valuations specialists accepted that the valuation basis for each of the sampled assets and concluded that the assumptions made were reasonable. The Authority's valuation team keep highly detailed records, which were found to support the values provided. We were also able to confirm that the valuations had been correctly recorded within the accounts, with the movements in values appropriately charged to reserves or the Comprehensive Income and Expenditure statement.

Income and expenditure cut off – the Authority, as required by the Local Government Code of Practice, applies accruals accounting to both income and expenditure. This follows the principle that a financial transaction should be recognised within the year it relates to, even if an invoice has not been raised or received. We have reported this in previous years and as a result the Authority has introduced a process of checking the largest accruals to ensure they have been correctly included.

For income, our sample testing identified one item that was posted in the incorrect period. This individual error, and the projected error based on our sampling methodology were below the triviality level.

For expenditure, our sample testing identified a number of items that were incorrectly treated. The errors identified were both over and under accruals/recognition of expenditure (i.e. some impact 2014/15 and some impact 2015/16) and have been classed as errors where expenditure falls across the year end and has not been apportioned correctly between financial years or where expenditure that was accrued in 2014/15 but relates to 2015/16.

The errors for amounts 'over' accrued were £29k (this creates an extrapolated error of £232k) and the amounts 'under' accrued were £25k (this creates an extrapolated error of £206k) leading to a net error of £4k (net extrapolated error of £31k).

We have assessed the errors individually and in aggregate and concluded the Authority's expenditure/accruals are materially correct.

Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Hampshire County Council pension fund. The Authority's net pension liability at 31 March 2015 was £75m (2013/14 - £68m).

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. The report from the Pension Fund actuary was reviewed and the assumptions used were compared to the industry averages. The assumption used for the future lifetime at 65 for male pensioners was 0.2 years above the expected maximum (0.1 years in 2013/14). The financial impact of this is at most a decrease of the liability of £1,174,000 (£525,000 in 2013/14). The impact of this assumption being above the average does not have a material impact on the pension liability and as such we have concluded it is reasonable but we do bring this to your attention. We have also validated the data supplied to the actuary on which to base their calculations and did not identify any issues to report.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. We did not identify any uncorrected misstatements to report to you.

We also bring to your attention that there are no misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in; significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered. No issues were noted in the appropriateness and application of policies.

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Property, Plant and Equipment and Investment Properties: The Authority charges depreciation based on an estimate of the Useful Economic Lives of assets for the majority of Property, Plant and Equipment (PPE). The total depreciation charge in 2014/15 was £2.26m (2013/14 £2.19m). This involves a degree of estimation. The Authority values PPE and Investment Properties in accordance with its accounting policies to ensure that the carrying value is true and fair. This involves judgement and reliance on your internal and external valuers who are charged with revaluing certain classes of assets annually.

Accruals: The Authority raises accruals for expenditure incurred where an invoice has not been raised or received at year end, but where there is a known liability to be met which relates to the current year. This involves a degree of estimation. Accruals are not disclosed separately within the statement of accounts which is in line with the Local Government Code of Practice.

Pensions: as above, the Authority relies on the work of an actuary in calculating these balances.

Allowance for doubtful debts: the Authority provides for all property rents and sundry debts that have been outstanding for more than three months, all housing benefits overpayments and a sliding scale for Council Tax debtors. The allowance for doubtful debts in 2014/15 for the General Fund was £3.02m (2013/14 £2.67m).

NNDR Provision for Appeals: The Authority has calculated the provision amount based on historic data on the percentage success of claims and the percentage reduction of these successful claims multiplied by the rateable value for the related years. The value for the current year for the Council is £2.68m (2013/14 £1.24m).

We have reviewed the judgements and accounting estimates included in the accounts by management and have concluded that these are reasonable.

Management representations

The representation letter that we ask management to sign was provided to the Audit & Accounts Committee as a separate document on 21 September 2015.

In addition to the standard representations we have, as in 2013/14, requested specific representations on use of valuation experts. We also include a specific representation on the existence of three cash and investment balances as we were unable to obtain third party confirmations for these balances.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We did not identify any matters during the course of our work.

We have also undertaken procedures to ascertain whether the listing we have been provided with is complete. We did not identify any related parties that had not already been communicated to us.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work to form our value for money conclusion and have undertaken certification of claims and returns, as required by the Audit Commission.

We highlighted in the audit plan that PwC were in the process of bidding for financial support work with the Council. The procurement process for this support is now concluded and PwC were not successful. As such there is no threat to our independence that we need to report to the Audit & Accounts Committee.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2015 is included on page 17. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Cabinet, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit and Accounts Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work. We have found no areas of concern to report.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes 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 determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We have issued an unqualified value for money conclusion.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention. We do not have any such matters to report.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit and Accounts Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in February 2015 we enquired:

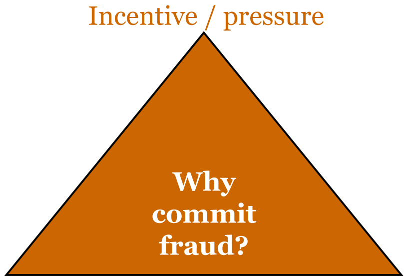
- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you on 21 September we asked for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. You confirmed there were no changes and no additional mattes to report. A specific confirmation from management in relation to fraud is included in the letter of representation.

The Fraud Triangle

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure



Opportunity	**Rationalisation/attitude**
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Fees update

Fees update for 2014/15

We reported our fee proposals in our plan.

Our fees charged were therefore:

	2014/15 outturn	2014/15 fee proposal
Statement of Accounts (including whole of government accounts)	£57,835	£57,835
Value for Money Conclusion	£14,000	£14,000
Grant Certification Fees	£21,880	£21,880
TOTAL	**£93,715**	**£93,715**

Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in February 2016 within the Certification Report to Management in relation to 2014/15 grants.

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