In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16’. 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 from 1 April 2015’ 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 2016.

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 2016 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>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<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>
### Area of Work | Conclusion
--- | ---
Reporting to the National Audit Office (NAO) on our review of the Council’s Whole of Government Accounts return (WGA). | We had no matters to report.

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 13 September 2016.

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 28 September 2016.

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2015/16 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
Executive Director
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 2015/16 Audit Results Report to the 26 September 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 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2016 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 2015/16 financial statements; and
  ► On the consistency of other information published with the financial statements.

► Forming a conclusion on the arrangements the Council has in place 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 thy 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, we did not perform any audit procedures on the return. However, we did report this fact to the NAO in accordance with the group instruction.
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 28 September 2016.

Our detailed findings were reported to the 26 September 2016 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>
</tr>
</thead>
<tbody>
<tr>
<td>Management override of controls</td>
<td>Our approach focused on:</td>
</tr>
<tr>
<td>A risk present on all audits is that management is in a</td>
<td>► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</td>
</tr>
<tr>
<td>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. 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.</td>
<td>► Reviewing accounting estimates for evidence of management bias;</td>
</tr>
<tr>
<td></td>
<td>► Evaluating the business rationale for any significant unusual transactions; and</td>
</tr>
<tr>
<td></td>
<td>► Evaluating the appropriateness of accounting policies against Code guidance and for changes from the prior period.</td>
</tr>
<tr>
<td></td>
<td>Our work found no evidence of management override in the 2015/16 financial statements.</td>
</tr>
<tr>
<td>Valuation of investment properties</td>
<td>Our approach focused on:</td>
</tr>
<tr>
<td>Valuation of investment property assets are significant accounting estimates that have a material impact on the financial statements. There is an inherent risk with any significant accounting estimation that review and re-</td>
<td>► Reviewing the accounting treatment in 2015/16;</td>
</tr>
<tr>
<td></td>
<td>► Reviewing the lease classifications to ensure compliance with the Code;</td>
</tr>
<tr>
<td></td>
<td>► Reviewing any valuer’s report on the investment properties; and</td>
</tr>
</tbody>
</table>
measurement could result in year-on-year material differences.

As with the previous auditors, 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.

Also, the Council receives material income streams from the rental of investment properties and the classification of leases between operating and finance is important for the council in that income from operating leases is treated as usable income whereas income from finance leases is treated as capital. Therefore, any change in classification, or change to the accounting standards, could significantly affect the Council’s income streams.

► Reviewing disclosure to ensure appropriateness.

Audit valuations and classification testing found that investment properties have been accounted for in line with the Code of Audit Practice and the relevant accountings standards. Similarly, our work found that lease classifications were also in line with the Code of Audit Practice and the relevant accountings standards.
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 issued an unqualified value for money conclusion on 28 September 2016.
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. However, we did report this fact to the NAO in accordance with the group instruction.

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 2015/16 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 Audit and Accounts Committee on 26 September 2016. 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. However, we did not identify any control deficiencies that require reporting to you.
Focused on your future
## Focused on your future

### Ongoing impact of ‘Brexit’.

<table>
<thead>
<tr>
<th>Area</th>
<th>Issue</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Following the majority vote to end the UK’s membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK.</td>
<td>The long term impact of ‘Brexit’ is uncertain but with a significant portfolio of cash investments the Council would be adversely affected by lower income from these investments, if those returns reduce in line with the reduction in Base Rate.</td>
</tr>
<tr>
<td></td>
<td>With £246 million of investment properties on the balance sheet, any impact on the Council’s valuations if confidence in the wider UK property market falls, is likely to materially affect the financial statements. Similarly, any loss in the income that these properties generates will adversely affect the Council’s ability to achieve its planned budgets. Also, the valuation of the Council’s defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</td>
<td></td>
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<tr>
<td></td>
<td>Following the vote, the Bank of England also reduced Base Rate by 0.25%, which may also reduce returns on cash investments.</td>
<td></td>
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</tbody>
</table>

### Capital schemes

<table>
<thead>
<tr>
<th>Area</th>
<th>The Council has a number of high profile and high value capital projects in place to support the economic development and regeneration of areas within Basingstoke and Deane. These include:</th>
<th>Any changes to the projects or the income streams associated with them creates negative financial implications for the Council and puts pressure on the annual budgetary processes.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>► Manydown housing development, which will ultimately include over 3,000 new homes and two new schools;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Transformation of Basing View; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Regeneration of the Leisure Park.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Council recognizes the risk associated with these projects and their delivery will be impacted by the scale and complexity of the schemes as well as current development economics and market sentiment. There are a range of project specific risks that will need</td>
<td></td>
</tr>
</tbody>
</table>
Area | Issue | Impact
--- | --- | ---
to be understood and managed. Also, delivery of schemes of this size is dictated by the Skills, capacity and competence available to the organization.

Local appointment of auditors | The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to make arrangements to appoint external auditors in accordance with the new requirements. This may be done through various options, which include signing up to the new sector led body (PSAA) to handle the appointment process, or establishing their own auditor panel to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

Existing external audit arrangements will remain unchanged for the 2016/17 and 2017/18 years.

The Council will need to make arrangements to appoint external auditors in accordance with the new requirements.

Accelerated closedown | On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made (signed by the Minister) under the Local Audit and Accountability Act 2014 on 12 February 2015.

A key area of the regulations is that from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements.

The change in closedown arrangements could impact across all of the current processes and the Council needs to ensure that reporting mechanisms and systems are aligned to meet the new deadline.
Area | Issue | Impact
--- | --- | ---
The good news is that with sound planning, communication and joint working, those deadlines are highly attainable. The majority of councils are on the right trajectory having met the current reporting deadlines consistently for the last few years, the challenge now is upping the speed of that trajectory to achieve the faster deadlines. Below we have included some suggestions which will help achieve this new statutory deadline. We will continue to engage with officers to ensure that the council is well placed to meet these new statutory deadlines.

As with any project the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements. We appreciate that each client starts from a slightly different base position. Therefore, there is no 'one size fits all' solution. However, there are areas where consideration can be given now:

► revisit the current project timetable;
► an early in-year financial hard close;
► review the format of your accounts;
► review your approach to estimates;
► review your year-end journal process;
► review the operation of your ledger system; and
► consider how fit for purpose is your current financial reporting system?