

Rushmoor Borough Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



Members of Rushmoor Borough Council
Rushmoor Borough Council
Council Offices
Farnborough Road
Farnborough
Hampshire GU14 7JU

14 October 2015

Dear Members

Annual Audit Letter 2014/15

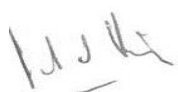
The purpose of this Annual Audit Letter is to communicate to the members of Rushmoor Borough Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to the Licensing & General Purposes Committee in our Audit Results Report presentation given on 28 September 2015.

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

This is the last year that I will audit Rushmoor Borough Council and my successor for the 2015/16 audit will be Andrew Brittain. I would like to take this opportunity to thank officers for their assistance during the course of our work both this year and in the time I have been the auditor of the Council.

Yours faithfully



Paul King
For and behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 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.

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 30 March 2015 and was 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 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 having 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 and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's AGS;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Rushmoor Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 28 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 28 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 28 September 2015
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was presented on 28 September 2015 to the Licensing & General Purposes Committee

Issued 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.

Issued on 28 September 2015

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council 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 Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 28 September 2015.

Our detailed findings were reported to the Licensing & General Purposes Committee on 28 September 2015.

Significant Risk: Risk of management override

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

We identified no material misstatements, evidence of material fraud or other significant matters to report.

Other key findings: Valuation of Council Offices

As identified during the 2013/14 audit the valuation of Council Office was valued incorrectly due to splitting the property between investment and operational activity.

Our approach focused on:

- ▶ Enquiries of management about the arrangements in place for instructing valuers and reviewing the instructions provided to valuers.
- ▶ Review of the valuation methodology used by valuer
- ▶ Test a sample of re-valued assets to ensure correct valuation in line with the valuation methodology and accounting policies

Our review did not identify any issues that we needed to report.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 28 September 2015. A summary of the key findings from our work to support our conclusion is set out below.

Financial Resilience – Significant risk – Low level of reserves

The forecast level of future reserves

A number of factors affected the Council's reserves position in 2014/15, including the Council's NDR position moving from a safety net position to a levy position (£1.8 million); reduction in car parking income (£0.6 million); and NDR safety net grant 2013/14 (£3.6 million). The impact of these factors has been to reduce the Council's General Fund balance to £1.6 million and reduce the level of earmarked reserves to £3.6 million. The Council had been building up its useable reserves prior to 2014/15 by establishing a Stability and Resilience Reserve. The Council plans to use a forecast NDR surplus in 2015/16 of £4.6 million to increase the Stability and Resilience Reserve during 2015/16. The Council's current reserve strategy is to review usable reserves on an ongoing basis through the Medium Term Financial Strategy (MTFS). The Council's reserve plans need to be more robust to restore reserves over the medium term. Without a robust plan there is a risk the Council would substantially decrease its reserves by the end of 2017/18, for example if there was a reduction in NHB grant. The Council is taking action to revise its MTFS that will include a separate review of reserves in 2015/16.

The Council's historical financial performance

Historically the Council has a good track record of delivering its financial plans including its Value for Money improvement targets. However, the levels of savings required from 2016/17 onwards are substantially more than the levels the Council has had to achieve in the past three financial years. The Council has achieved savings to meet the savings requirement for 2014/15 which provides some assurance about the Council's ability to meet savings targets. Year on year savings become harder to achieve as initial savings have already been made in the first round of savings during 2010/11.

The Council's current financial standing

The Council's financial position remains sound at the end of 2014/15, but the overall level of usable reserves available to support spending is reduced significantly during 2014/15. The minimum level of General Fund balance is set at £1 million, and the balance at the end of 2014/15 of £1.6 million is above the minimum level. However, the Council needs to consider the appropriateness of setting a minimum level at the figure of £1 million given the uncertain future financial pressures.

The Council's processes for setting its budget, and the nature of the budget assumptions

The Council has established effective processes for setting its budget. In setting its General Fund budget, the Council has been prudent in the assumptions it has made. This reduces the possibility of an unexpected overspend.

Reviewing the link between the Council's 8 Point Plan and the MTFS

The Council's 8 Point Plan is shaping the way the Council operates on a strategic and practical level, and includes a number of elements including reviewing what the Council does against its priorities; efficiency and transformation; income generation and investment opportunities; and better procurement. Whilst the 8 Point plan is driving change at the Council, it is less clear how the plan is delivering quantifiable outcomes.

The 8 Point Plan is being monitored by the 8 Point Plan Group, performance DMB and Members. Progress on projects are produced to date from the 8 Point Plan and reported with quarterly monitoring reports. A number of major projects that are currently in the scoping and feasibility stage of development and have yet to have their potential savings identified. Savings that have been realised for example market income of £0.017 million in 2015/16 will be incorporated into the next round of MTFS development.

In considering the Council's arrangements for securing financial resilience, and for challenging how it secures economy, efficiency and effectiveness we identified:

- ▶ The Council forecasts a budget gap of approximately £2.5 million in its Medium Term Financial Strategy over the three years 2015/16 to 2017/18
- ▶ Unless the budget gap forecast in the MTFS is closed the Council would be at risk of substantially decreasing its usable Earmarked reserves by the end of 2017/18 assuming no increases in council tax and NHB.

Economy, efficiency and effectiveness

The potential cumulative savings requirement in the Council's MTFS is £2.5 million to 2017/18. To date the level of 'achieved and in budget' savings figure of £2.1 million in total to 2017/18 (equivalent to £0.7 million annually). This is consistent with the previous level of achieved savings. We recognise the Council has a history of being prudent when forecasting savings. There is significant potential for the remaining categories of savings to deliver the remainder of the required savings to close the budget gap, with estimated higher range of cumulative savings of £3.3 million to 2017/18.

In our view, the Council has made sufficient progress in identifying the actions necessary to demonstrate its ability to secure a stable financial position over the medium term.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

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

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Licensing & General Purposes Committee on 28 September 2015. In our professional judgement the firm is independent and the objectivity of the Audit Director and audit staff has not been compromised within the meaning of regulatory and professional requirements

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 Council, as required, significant deficiencies in internal control.

We have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

4. Looking ahead

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets. This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> • Unadopted roads on industrial estates • Footways • Cycleways • Street Furniture <p>The Council's officers have begun to assess the impact of this change on its financial statements and expect there to be a minimal impact.</p>
<p>Earlier deadline for production and audit of the financial statements from 2017-18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p> <p>The Council needs to consider and start to implement the detailed steps it needs to take to allow it to close down the general ledger and produce the financial statements more quickly in readiness for the deadline changes in 2017/18.</p>

5. Fees

Our fee for 2014/15 is in line with the planned fee and the scale fee set by the Audit Commission and reported in our Audit Plan and Audit Results Report. We carried out no non-audit work in 2014-15 (none in 2013-14).

	Final fee 2014/15	Planned fee 2014/15	Scale fee 2014/15
Total Audit Fee – Code work	£66,450	£66,450	£66,450
Total Audit Fee – Certification of claims and returns*	£7,960	£7,960	£7,960

*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 early 2016 within the Annual Certification Report for 2014/15.

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