

Rushmoor Borough
Council

Audit results report

Year ended 31 March 2017



Private and Confidential

25 September 2017

Dear Members

We have substantially completed our audit of Rushmoor Borough Council's (the Council) financial statements for the year ended 31 March 2017.

Subject to the adequate resolution of the outstanding matters listed in our report, we confirm that we anticipate being in a position to issue an unqualified audit opinion on the financial statements in the form that appears in Section 3, after your Licensing and General Purposes Committee meeting on 25 September before the statutory deadline of 30 September 2017.

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of members and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your staff for the assistance provided to us during the engagement.

We look forward to the opportunity of discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Andrew Brittain
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



05 Value for Money

06 Other Reporting Issues

07 Assessment of Control Environment

08 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 September 2015)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Members of Rushmoor Borough Council and management of the Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Council members and senior management for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



Executive Summary

Executive summary

Overview of the audit

Scope and materiality

In our Audit Plan, presented at the 30 January 2017 Audit Committee meeting, we provided you with an overview of our audit scope and approach for how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using materiality of £1,388,220. We have reassessed this based on the actual results for the financial year and have decreased this amount to £1,325,340. The threshold for reporting uncorrected audit differences has decreased from £69,410 to £66,267. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than our overall materiality level might influence the reader and developed an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including exit packages [strategy applied: we agreed all disclosures in the remuneration report back to source data, and exit packages to the agreed and approved amounts]
- ▶ Related party transactions [strategy applied: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence]

Status of the audit

We are still in the process of completing our audit of the financial statements for the year ended 31 March 2017 and are performing the procedures outlined in our audit plan. Subject to satisfactory completion of the outstanding items we expect to issue an unqualified opinion on the Council's financial statements. However, it is possible that further matters requiring amendment may arise. We will provide an update to the General Purposes and Licensing Committee at its meeting on 25 September 2017.

The following matters are outstanding at the time of writing this report:

- ▶ Receipt of the signed Letter of Representation.
- ▶ Review of the final version of the financial statements.
- ▶ Completion of subsequent events review.
- ▶ Approval of the accounts by the General Purposes and Licensing Committee on 25 September 2017.

We expect to issue the audit certificate at the same time as the audit opinion after the Licensing and General Purposes Committee meeting on 25 September 2017.



Executive Summary

Executive summary (continued)

Audit differences - Unadjusted

Management produced a comprehensive set of draft accounts. There are no unadjusted audit differences.

Audit differences - Adjusted

There were no adjusted audit differences which we are required to report to the Licensing and General Purposes Committee. However, the Council made several amendments to its disclosures in the financial statements which are detailed in section 4 of this report.

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial statements. This report sets out our observations and conclusions on these areas. Our consideration of these matters and others identified is summarised in the "Areas of audit focus" section of this report.

We ask you to review these and the other matters in this report to ensure that:

- ▶ there are no residual further considerations or matters that could have an impact on these issues;
- ▶ you agree with the resolution of the issue;
- ▶ there are no further significant issues known to you which need to be considered before the financial report is finalised.

There are no matters that we believe need to be brought to the Licensing and General Purposes Committee's attention, other than those reported by management or disclosed in this report.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. Our review of the draft Annual Governance Statement (AGS) identified that some of the disclosures under the “Significant governance issues and major risks” section were not all relevant as some were too insignificant to disclose. The AGS was revised to reflect the appropriate significant governance issues and major risks faced by the Council.

For the Whole of Government Accounts, as the Council is below the specified audit threshold of £350 million, we did not perform any additional audit procedures on the consolidation pack. We have no matters to report.

Value for money

We have considered your arrangements for taking informed decisions, deploying resources in a sustainable manner, and working with partners and other third parties. In our audit plan we identified no significant risk around these arrangements.

As discussed, in Section 5, our work did not identify any issues that we needed to report to you in terms of your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Control observations

We have adopted a fully substantive approach and so have not tested the operation of controls. 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 the Council's financial statements of which they are not aware. However we note some areas for improvement, covering the operation of the Councils governance, assurance and risk management processes, which are discussed in Section 7.

Independence

Please refer to Appendix B for our update on independence. There are no issues to report.



02

Areas of Audit Focus



Audit issues and approach: Revenue recognition - significant risk

Revenue Recognition

What are our conclusions?

Our testing has not identified any material misstatements with respect to revenue and expenditure recognition.

What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Because the Council is required to meet its planned budget, there is both a financial and political incentive to avoid reporting a deficit position at the year end.

What did we do?

Our approach focused on:

- ▶ reviewing and testing revenue and expenditure recognition policies, to see if they would of themselves lead to over- or understatement of amounts;
- ▶ reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We concentrated on estimates requiring more judgement by management, e.g. accruals;
- ▶ developing a testing strategy to test material revenue and expenditure streams. We looked at all material streams individually and completed sample testing tailored for the individual streams (e.g. where higher risk, more testing performed);
- ▶ reviewing the capitalisation of PPE to ensure it was valid capital expenditure and not revenue spend;
- ▶ reviewing and testing revenue cut-off at the period end date to ensure that transactions were entered in the relevant year (e.g. items were not deferred into the following year to improve the financial position; and

We found no issues to report.



Areas of Audit Focus

Audit issues and approach: Management override – significant risk

Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

What is the risk?

Risk of management override

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 prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What did we do?

Our approach focused on:

- ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, e.g. senior managers entering journals (we would not normally expect this), journals posted at weekends and those not netting to zero, and journals with descriptions such as 'fraud' and 'error';
- ▶ reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals, provisions and prepayments; and
- ▶ evaluating the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times.
- ▶ we performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised.
- ▶ we performed sample testing on the existence and valuation of prepayments, the completeness and valuation of accruals and completeness of provisions and found no indication of management bias.

We found no issues to report.



Areas of Audit Focus

Audit issues and approach: Valuation of PPE – significant risk

Valuation of PPE

This significant risk was not included in our audit plan and was identified on our review of the Council's draft financial statements

What is our conclusion?

We have concluded that, overall, the basis of the valuation of the Council's Property, Plant and Equipment is appropriate at a financial statement level.

However, at a more detailed level the assumptions made by the Council's external valuers, Wilks, Head & Eve (WHE) would be more robust if better evidence was used in a number of areas.

What is the risk?

The Council values a proportion of its Property, Plant and Equipment (PPE) assets every year so that all of its assets are valued on a five year cycle. Our review of the Council's draft 2016/17 financial statements showed that there was a £24.192 million upward revaluation of land and buildings compared to the Council's PPE asset opening balance of £67.455 million.

Given the significant increase of some £24 million, compared to our materiality of £1.325 million, we concluded that there was a significant risk of material misstatement in the valuation of assets. As part of seeking assurance over the risk we engaged the EY Real Estate Valuation specialists on the application of the Depreciated Replacement Cost (DRC) valuation methodology used by the Council's external valuers, Wilks, Head & Eve (WHE).

Our work focussed on the four PPE assets that represented the majority of the £24.192 million upward revaluation.

What did we do?

Our Real Estate Valuation specialists:

- ▶ held various discussions with the Council's surveyor and building managers;
- ▶ completed corroborative procedures to identify the quantum of exposure concerned; and
- ▶ calculated an acceptable range of property values for each of the four assets.

Our specialists found that, overall, the asset values were within the EY acceptable range of valuations, as shown below.

	WHE Value	EY Overall range	Within range
Farnborough Leisure Centre	£15.08m	£13.47m to £20.93m	Yes
Aldershot Indoor Pool	£3.59m	£3.80m to £5.96m	Note 1
Aldershot Outdoor Pool	£8.24m	£3.48m to £5.82m	
Aldershot Dance Studio	£3.95m	£2.21m to £3.96m	Yes

Note 1: Combined WHE value for the two sites is £11.8m which is very close to the combined value of both our upper ranges for the site.

This is appropriate at a financial statement level, however the Council may wish to revisit the asset values recorded for these four assets in its fixed asset register. We have discussed the detailed findings with officers. The council also needs to add a disclosure regarding PPE valuation to Note 7: Major Sources of Estimation Uncertainty.



Areas of Audit Focus

Audit issues and approach: Other risk

Expenditure and funding analysis and comprehensive income and expenditure statement

What is our conclusion?

Our audit work did not identify any issues with the revised Comprehensive Income and Expenditure Statement.

However we identified areas where the Expenditure and Funding Analysis was not compliant with the Code and these have been subsequently amended.

What is the risk?

Amendments have been made to the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the '*Telling the Story*' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the Authority operates. We expect this to show the Authority's segmental analysis.

What did we do?

Our approach focussed on:

- ▶ review of the Expenditure and Funding Analysis, CIES and new notes to ensure disclosures are in line with the Code;
- ▶ review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

We found that there were no issues with the revised Comprehensive Income and Expenditure Statement. However we identified areas where the Expenditure and Funding Analysis reported by the Council was not compliant with the Code. This was reported to management and the disclosure note has been amended and is now fully compliant.



03

Audit Report



Audit Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Opinion on the Rushmoor Borough Council's financial statements

We have audited the financial statements of Rushmoor Borough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement; Movement in Reserves Statement; Balance Sheet; Cash Flow Statement; and the related notes 1 to 44 and the Collection Fund and related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Rushmoor Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Rushmoor Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 15, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Rushmoor Borough Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Council's Statement of Accounts and Annual Governance Statement 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Rushmoor Borough Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



Audit Report

Opinion on other matters

In our opinion, the information given in the Council's Statement of Accounts and Annual Governance Statement 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on the Rushmoor Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2016, as to whether the Rushmoor Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider



Audit Report

under the Code of Audit Practice in satisfying ourselves whether the Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Audit General in November 2016, we are satisfied that, in all significant respects, Rushmoor Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Andrew Brittain (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Reading

26 September 2017

The maintenance and integrity of the Rushmoor Borough Council's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences



Audit differences

Audit differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures, and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted differences

There are no unadjusted differences to be reported.

Summary of adjusted differences

There were no adjusted audit differences in the figures which we are required to report to the General Purposes and Licensing Committee. However, the Council amended its disclosures in the financial statements to include the following:

- **Note 3 - Expenditure and Funding Analysis:** This is a new disclosure note required in 2016/17 due to changes in the Code. The disclosure in the Council's draft accounts contained a number of inconsistencies with the Code. This was identified during the audit and the note has been amended by the Council and is now fully compliant.
- **Note 4 - Income and Expenditure by Nature:** This is a new disclosure note required in 2016/17 due to changes in the Code and was not included in the Council's draft accounts. This was identified during the audit and the accounts have been amended to include the required disclosure.
- **Note 7: Major Sources of Estimation Uncertainty:** The council needs to add a disclosure stating that the PPE valuation figures are based on assumptions and estimates and the effect there would be if the actual results differ from the assumptions.
- **Other:** Other minor amendments have been made following our audit procedures. These include a minor alteration to remuneration band table in note 34, an amendment to a related party figure in note 36 and increased disclosures in note 44.

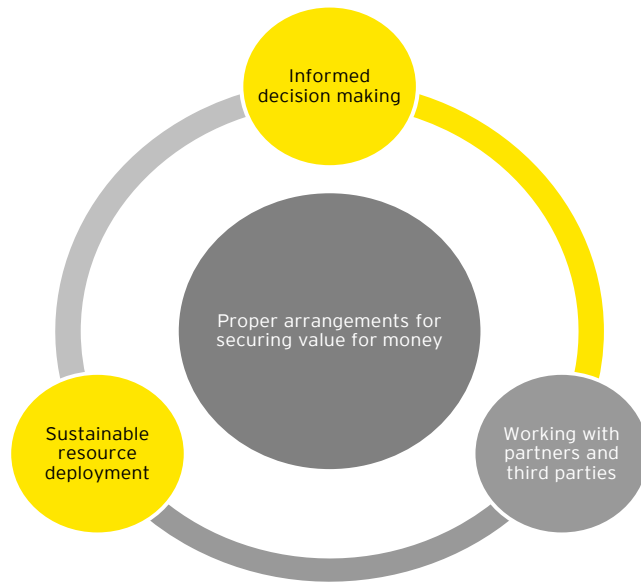


05 Value for Money



Value for Money

Value for Money



Economy, efficiency and effectiveness

We are required to consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness in their 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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We have considered your arrangements for taking informed decisions, deploying resources in a sustainable manner, and working with partners and other third parties.

In our audit plan we identified no significant risks around these arrangements. We have no issues that we needed to report to you in terms of your arrangements to secure economy efficiency and effectiveness in your use of resources.



06

Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Rushmoor Borough Council's Financial Statements 2016/17 with the audited financial statements.

- We found that the financial information in the Rushmoor Borough Council's Financial Statements 2016/17 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

- Our review of the draft Annual Governance Statement (AGS) identified that some of the disclosures under the "Significant governance issues and major risks" section which were not all relevant, as some were too insignificant to disclose. The AGS was revised to reflect the three appropriate significant governance issues and major risks faced by the Council.



Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Whole of Government Accounts

For the Whole of Government Accounts, as the Council is below the specified audit threshold of £350 million, we did not perform any additional audit procedures on the consolidation pack. We have no matters to report.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you any findings from the audit or other matters significant to your oversight of the Council's financial reporting process. This includes the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Related parties;
- ▶ External confirmations
- ▶ Going concern;
- ▶ Consideration of laws and regulations;;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report; and
- ▶ Any other matters significant to the overseeing of the financial reporting process.

We have no matters to report.



07

Assessment of Control Environment



Assessment of control environment

Control Environment

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as auditor is to consider whether the Council has adequate arrangements to satisfy itself that the systems of internal financial control are both adequate and effective in practice. 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. As we have adopted a fully substantive approach, we have not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control. We have not identified 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 they are not aware. However we note four areas for improvement which we have identified as part of our work.

Observation 1: Revised Terms of Reference and work programme for the L&GP Committee

Following the committees restructure the L&GP Committee is responsible for carrying out the functions of an audit committee for the Council. Our review of its current Terms of Reference and output for 2016/17 showed that the Committee could be more effective if it followed CIPFA's best practice guidance for Audit Committee which includes (1) an agreed work programme for the year, (2) regular risk management updates, (3) self-assessment of its effectiveness and (4) production of an annual report of its achievements for Cabinet.

Recommendation

The Licensing and General Purposes Committee Terms of Reference should reflect those requirements of an audit committee as specified in CIPFA's Position Statement and guidance on Audit Committees to ensure that its work programme for the year covers all best practice requirements.

Observation 2: Mapping and reporting of the Council's Assurance Framework

The Council is lacking an overarching assurance framework which is a structured means of identifying and mapping the main sources of assurance, and co-ordinating them to best effect. The Council can then use this to effectively manage performance and risk through identifying and reporting on continuous improvement and areas where management need to focus their attention. A good assurance framework, if reported to the Council's L&GP Committee will provide wider assurance than controls, integrating financial, risk and performance measurements, independent assurance with VFM outcomes. It also underpins planning, performance management and risk management leading to a good understanding of how the Council achieves its objectives and addresses areas for improvement. This will be a useful investment and may reduce the amount of scrutiny committee time needed.

Recommendation

The Council should consider mapping its Assurance Framework, where it obtains its assurances, where there are gaps and risks to manage and actions to take. Also then agree on the reporting of this to the Licensing and General Purposes Committee, which will give members a clear view of how the Council is achieving its objectives and addressing areas for improvement.



Assessment of Control Environment

Control environment (continued)

Observation 3: Review of Risk Management Framework

The Internal Auditor's Opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes provides underlying assurances for the Council's Annual Governance Statement. The Head of Internal Audit's Opinion for 2016/17 was based on eight reviews, six of which were financial system reviews. Improvements have been made in terms of to the planning and scoping of internal audit work for 2017/18, however there is no planned review of the effectiveness of the Council's Risk Management Framework.

The Council's Risk management framework was identified as a significant governance issue in both the 2015/16 and the 2016/17 Annual Governance Statements as the Council recognises that risk management needs to be better embedded within the Council. The Council is currently updating the Corporate Risk Register, risk policies and practice through its re-invigoration of the Risk Management Group. However the Risk Register still needs to be based on the risks around the delivery of the Council's strategic objectives.

Recommendation

Internal Audit should provide assurance over the adequacy of the Council's Risk Management Framework, to underpin the 2017/18 Annual Governance Statement, if they carried out a review of the Council's improved risk management arrangements before March 2018.

Observation 4: Robust challenge of experts

The Council's valuers, Wilks, Head and Eve (WHE) estimated that there was a £24.192 million upward revaluation of land and buildings compared to the Council's PPE asset opening balance of £67.455 million. Given the significant increase of some £24 million, it appears that management did discuss the outcome of the valuation work with WHE, however management did not document how they were satisfied that the valuation estimates were reasonable. Also, given the differences identified in section 2 of this report, it is our view that the valuers need a more robust setting of scope and challenge process to ensure the valuation approach meets the individual circumstances of the assets being revalued.

Recommendation

Whilst appreciating that valuations are a matter of professional judgement, management should critically appraise the information provided to valuers to ensure it is accurate and understood, assess the methods and assumptions used against the accepted accounting practices and challenge where potential anomalies arise.

Management should then document their challenge of the significant estimates made by experts so they can satisfy themselves that the entries in the financial statements are reasonable.



08 Appendices



Appendix A

Required communications with the Council's Licensing and General Purposes Committee

There are certain communications that we must provide to the audit committees of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Council of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	30 January 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	25 September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, to raise any doubt about the Council's ability to continue for 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	25 September 2017 Audit Results Report







Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the Licensing and General Purposes Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Unless all of those charged with governance are involved in managing the entity, any fraud that we have identified or information we have obtained that indicates that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to the Licensing and General Purposes Committee responsibility. 	<p>We have asked management and those charged with governance about arrangements to prevent and/ or detect fraud.</p> <p>We have also focused our consideration of management override and revenue recognition towards higher risk areas, see Areas of audit focus in the report.</p> <p>We have not become aware of any fraud or illegal acts during our audit.</p>
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters to report
Subsequent events	<ul style="list-style-type: none"> ▶ Asking the Licensing and General Purposes Committee, where appropriate, about whether any subsequent events have occurred that might affect the financial statements. 	We have made enquiries of management and those charged with governance. We have no matters to report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements and management refuses to make the revision. 	We have no matters to report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations



Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. ▶ Asking the Licensing and General Purposes Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements. 	We have not identified any material instances or non-compliance with laws or regulations as a result of asking the Licensing and General Purposes Committee and management.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	25 September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that bear on EY's objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	30 January 2017 Audit Plan 25 September 2017 Audit Results Report
Fee Reporting	<p>Breakdown of fee information at the agreement of the initial audit plan</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work undertaken</p>	30 January 2017 Audit Plan 25 September 2017 Audit Results Report



Independence

We confirm there are no changes in our assessment of independence since the confirmation in our audit plan of 30 January 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your members consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of Licensing and General Purposes Committee on 25 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

The final fee has not yet been confirmed and will be discussed with officers if there are any changes.

	Final fee 2015/16	Planned fee 2016/17	Scale fee 2016/17	Final fee 2016/17
Audit fee - code work	49,838	49,838	49,838	49,838
Additional fee	0	0	0	3,791*
Total audit fee	58,490	57,349	57,349	53,629
Grant fee	8,652	7,511	7,511	7,511**

* Our planned fee, reported in the Audit Plan presented to the Licensing and General Purposes Committee in January 2017 was £49,838. Our proposed final fee, of £53,629, will be confirmed following the presentation of this report at the Licensing and General Purposes Committee, and subsequent agreement with Public Sector Audit Appointments Ltd. We have discussed and agreed the additional fee of £3,791 for the work we have carried out on the valuation risk with the Head of Financial Services when we met on 6 September 2017.

** The Final fee for grants depends on the outcome of the Housing Benefit audit.



Appendix C: Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]

25 September 2017

Andrew Brittain
Ernst & Young LLP
Apex Plaza,
Forbury Road ,
Reading,
Berkshire RG1 1YE

This letter of representation is provided in connection with your audit of the financial statements of Rushmoor Borough Council ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of (or 'present fairly, in all material respects,') the financial position of the Authority as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the



United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.



3. We have made available to you all minutes of the meetings of the Council, the Cabinet, and all committees including the Licensing and General Purposes Committee.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent,

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Comparative information - corresponding financial information

1. Comparative amounts have been restated as a result of CIPFA's 'Telling the Story' review to improving the presentation of local authority financial statements.
2. The comparative amounts have been correctly restated to reflect the above matter and appropriate disclosure of this restatement has also been included in the current year's financial statements.
3. The Prior Year Adjustment relating to Section 106 contributions secured during 2015/16 disclosed in Note 2 of the 2016/17 Financial Statements has



been correctly restated.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Local Government Pension Fund balances and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Pensions Liability, PPE Valuations and NDR Appeals estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

K. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and council financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.



L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Mandy Fahey
Chief Financial Officer

I confirm that this letter has been discussed and agreed at the Rushmoor Borough Council's Licensing and General Purposes Committee on 25 September 2017.



Councillor Adam Jackson
Chairman of the Rushmoor Borough Council's Licensing and General Purposes Committee



Appendix D: Accounting and regulatory update

Accounting update

Since the date of our last report to the Licensing and General Purposes Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:



Name	Summary of key measures 	Impact on Rushmoor Borough Council 
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ for local authorities; Council Tax and NDR income. <p>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.</p> <ul style="list-style-type: none"> ▶ 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. 	<p>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 material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> ▶ Disaggregate revenue into appropriate categories ▶ Identify relevant performance obligations and allocate income to each ▶ Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council has yet to commence work in this area due to the timing of implementation.</p>



Appendix D: Accounting and regulatory update (continued)

Progress report on implementation of new standards and regulations

In previous reports to the Licensing and General Purposes Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures 	Impact on Rushmoor Borough Council 
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<ul style="list-style-type: none"> ▶ 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. 	<p>These changes provide challenges for both the preparers and the auditors of the 2017/18 financial statements.</p> <p>To achieve this, the Council needs to take a number of steps as outlined below:</p> <ul style="list-style-type: none"> ▶ Critically review and amended the closedown process to achieve draft accounts production by the end of May 2018; ▶ Streamline the Statement of Accounts removing non-material disclosure notes; ▶ Re-order tasks from year-end to monthly/quarterly timing, reducing year-end pressure. <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> ▶ Issued a thought piece on early closedown ▶ As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales ▶ Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we have:</p> <ul style="list-style-type: none"> ▶ Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable ▶ Agreed areas for early testing with the Council. <p>We look forward to continuing this productive working relation in 2017/18 when we expect to have audited the accounts by 31 July.</p>

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