



# Rushmoor Borough Council

## Audit planning report

Year ended 31 March 2019

28 January 2019



Private and Confidential

28 January 2019

Licensing, Audit and General Purposes Committee,  
Rushmoor Borough Council,  
Council Offices,  
Farnborough Rd,  
Farnborough,  
Hampshire.  
GU14 7JU.

Dear Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 January 2019 as well as to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

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# Contents

01

Overview of our 2017/18 audit strategy



02

Audit risks



03

Value for Money Risks



04

Audit materiality



05

Scope of our audit



06

Audit team



07

Audit timeline



08

Independence



09

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](http://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 February 2017)" 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 Licensing, Audit and General Purposes Committee and management of Rushmoor Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Licensing, Audit and General Purposes Committee, and management of Rushmoor Borough 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 Licensing, Audit and General Purposes Committee and management of Rushmoor Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

# Overview of our 2018/19 audit strategy





## Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Licensing, Audit and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	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 would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Misstatements due to fraud or error – capitalisation of revenue spend	Fraud risk	No change in risk or focus	In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.
Valuation of Land and Buildings	Significant risk	No change in risk or focus	The fair values of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are both subject to valuation changes and impairment reviews. Valuation of land and property assets is a significant accounting estimate that, in the context of an uncertain economic environment, has a material impact on the financial statements.

## Overview of our 2018/19 audit strategy (continued)

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Licensing, Audit and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension Net Liability	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The Council's pension fund liability is a material estimated balance and the Code requires that this is disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, in the context of an uncertain economic environment.
New Accounting Standards	Inherent risk	New risk identified this year.	IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) apply from 1 April 2018. We will assess the impact of these new standards to determine whether they have been appropriately implemented by the Council.

# Overview of our 2018/19 audit strategy (continued)

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Rushmoor Borough Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

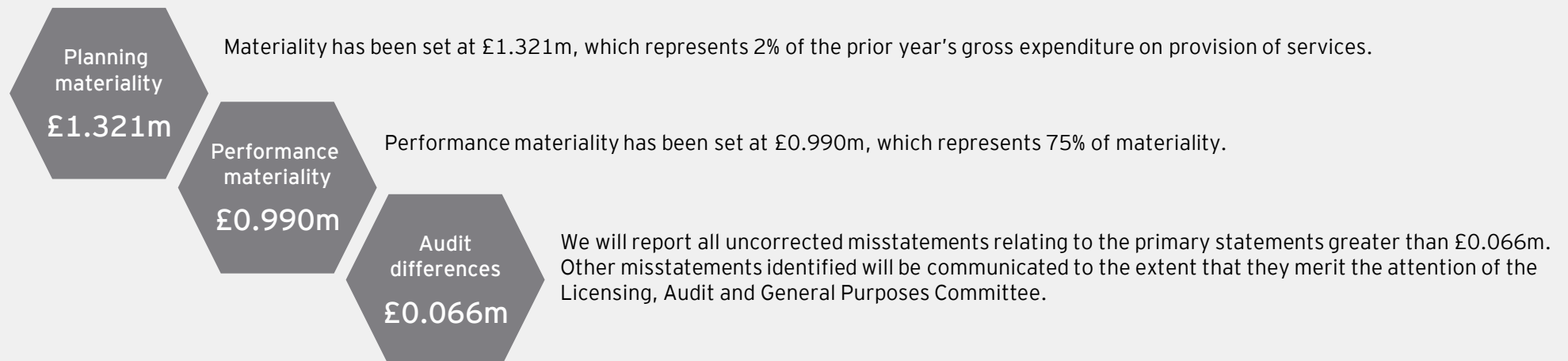
Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

This means that our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

## Materiality





02

# Audit risks





# Audit risks

## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risk identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

### Misstatements due to fraud or error \*

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 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 will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Identifying fraud risks during the planning stages.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Assessing accounting estimates for evidence of management bias, and
- ▶ Evaluating the business rationale for significant unusual transactions.

In addition to our overall response, we consider where these risk may manifest themselves and identify separate fraud risks as necessary below.

## Audit risks

### Our response to significant risks (continued)

We have set out the significant risks (including fraud risk denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risk identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

#### **Incorrect capitalisation of revenue expenditure\***

##### **What is the risk?**

Under ISA240 there is also 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.

Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council's capital programme which is some £46.2m for 2018/19, including expenditure in relation to the purchase of investment properties.

##### **What will we do?**

As capital expenditure is material to the financial statements, we will undertake additional procedures to address the specific risk we have identified, which will include:

- Sample testing additions to property, plant and equipment at a lower testing threshold, to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.



## Audit risks

# Our response to significant risks (continued)

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risk identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

### Valuation of Land and Buildings

#### Financial statement impact

We have assessed that the risk of valuation of land and buildings is most likely to affect the PPE and Investment Property accounts. Misstatements that occur could impact both on the Balance Sheet and Income Statement.

#### What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents significant balances in the Council's accounts and is subject to valuation changes and impairment reviews.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The council commissions property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements and therefore the balances are susceptible to misstatement

#### What will we do?

In terms of the overall response, we will:

- evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- adjust the nature, timing and extent of our audit procedures by, for example, increasing our sample sizes

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of property, including investment properties.

- ▶ Consider the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre).
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a five-year rolling programme as required by the Code for PPE, and annually for Investment Properties. We also consider if there are any specific changes to assets communicated to the valuer.
- ▶ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated.
- ▶ Consider changes to useful economic lives as a result of the most recent valuation.
- ▶ Test accounting entries have been correctly processed in the financial statements.
- ▶ We will consider engaging EY valuation specialists to assist the audit team.

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the risk/area of focus?

#### **IFRS 9 Financial instruments - inherent risk**

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial instruments.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9. Central government has indicated following consultation that statutory overrides for certain classes of financial assets will be put in place, however until these are confirmed there remains some uncertainty on the full accounting treatment.

The Council is yet to undertake and document its assessment of the impact of IFRS9.

#### **IFRS 15 Revenue from contracts with customers - inherent risk**

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. 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.

The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue may change and new disclosure requirements introduced.

The Council is yet to undertake and document its assessment of the impact of IFRS15.

### What will we do?

We will:

- ▶ assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ consider the classification and valuation of financial instrument assets;
- ▶ review the implementation of the new expected credit loss model impairment calculations for assets; and
- ▶ check additional disclosure requirements for compliance with the CIPFA Code.

We will:

- ▶ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- ▶ Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Check additional disclosure requirements.



## Audit risks

### Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

#### What is the risk/area of focus?

##### Pension Asset Valuation - inherent risk

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary Aon Hewitt.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What will we do?

We will:

- ▶ Undertake IAS19 protocol procedures assisted by the pension fund audit team to obtain assurances over the information supplied to the actuary in relation to Rushmoor Borough Council;
- ▶ Assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used. We do this by relying on the work of PWC, the Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



03

Value for Money Risks







# Value for Money

## Background

We are required to consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19, this is based on the overall evaluation criterion:

**"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"**

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.

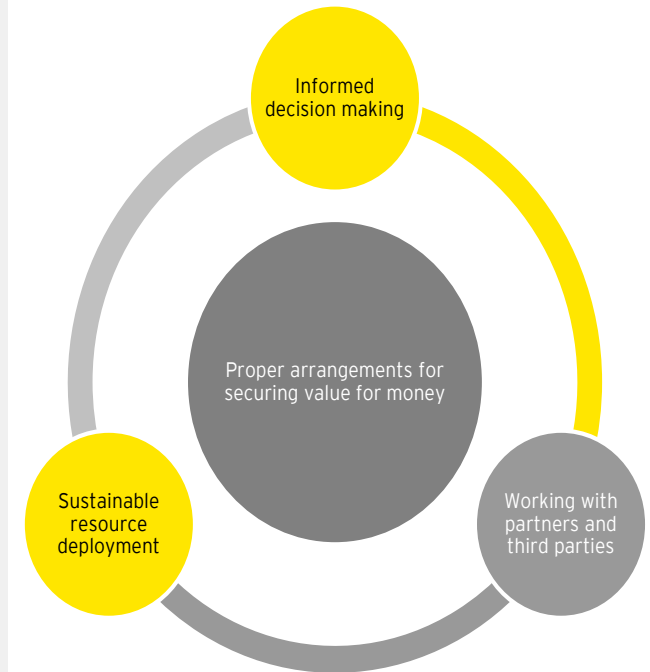
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have, and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. Our risk assessment has therefore considered both the potential financial impact of any issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following two significant VFM risks which we view as relevant to our value for money conclusion:

- Delivery of a sustainable medium term financial plan
- Commercialisation and the purchase of investment properties.



## Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?																																			
<b>Delivery of a robust Medium Term Financial Plan (MTFP)</b>																																					
<p>In the Council's Medium Term Financial Plan (MTFP), reported to Cabinet in February 2018, the Council was able to set a balanced budget for 2018/19, as it planned to withdraw £41k from reserves. However, from 2019/20 onwards the funding gaps are predicted to increase significantly year on year, with a cumulative shortfall in 2021/22 of £3.842 million.</p> <p>The Council's reserves are currently in excess of this, but some of these are earmarked to invest in future projects. The Council's planned MTFP is reliant on the delivery of the Council's "Rushmoor 2020" strategy to cover significant "savings proposals" each year, as shown below.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• assess the key assumptions made within the annual budget and MTFP</li> <li>• review the progress made in identifying savings for 2019/20 and beyond;</li> <li>• assess the effectiveness of project management and clarity of reporting to members in overseeing the Rushmoor 2020 transformational projects and income generation opportunities;</li> <li>• review the Council's business planning process for both generating savings and also undertaking commercial and regeneration projects.</li> </ul>																																			
<table border="1"> <thead> <tr> <th>Revenue forecasts 18/19 to 21/22</th> <th>2018/19 (£000)</th> <th>2019/20 (£000)</th> <th>2020/21 (£000)</th> <th>2021/22 (£000)</th> </tr> </thead> <tbody> <tr> <td>Net budget</td> <td>11,957</td> <td>13,616</td> <td>14,667</td> <td>16,384</td> </tr> <tr> <td>Total funding</td> <td>-11,275</td> <td>-10,886</td> <td>-11,585</td> <td>-12,542</td> </tr> <tr> <td>Funding gap</td> <td>682</td> <td>2,730</td> <td>3,082</td> <td>3,842</td> </tr> <tr> <td>Savings</td> <td>-641</td> <td>-2,559</td> <td>-3,055</td> <td>-3,090</td> </tr> <tr> <td>Funding gap</td> <td>41</td> <td>171</td> <td>27</td> <td>752</td> </tr> <tr> <td>Cumulative funding gap</td> <td>41</td> <td>212</td> <td>239</td> <td>992</td> </tr> </tbody> </table>	Revenue forecasts 18/19 to 21/22	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)	Net budget	11,957	13,616	14,667	16,384	Total funding	-11,275	-10,886	-11,585	-12,542	Funding gap	682	2,730	3,082	3,842	Savings	-641	-2,559	-3,055	-3,090	Funding gap	41	171	27	752	Cumulative funding gap	41	212	239	992		
Revenue forecasts 18/19 to 21/22	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)																																	
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<p>However, these "savings proposals" of £3.055 million in 2020/21 for example are not true savings. They are mix of income from commercial investments (some £1.8 million), net savings from transformation projects (£900k), increase in fees &amp; charges (£129k), efficiencies (£65k) and other income (£161k). The figures vary year on year but the greatest percentage "savings" are to be achieved through the income generation projects. Given the fact that the Council's capital programme, in terms of investment and regeneration, has slipped in 2018/19 then the impact on the delivery of the "savings proposals" and therefore a robust MTFP needs to be more closely monitored as these initiatives are higher risk and less outside of the Council's control.</p>																																					



## Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<b>Commercialisation and the purchase of investment properties</b>		
<p>The Council continues to develop significant commercial and investment opportunities to impact on annual income targets so that it can improve its financial sustainability. Full Council has granted approval to borrow up money and the Council will invest some £31.7 million in investment properties and some £7.2 million in regeneration properties in 2018/19.</p> <p>The Prudential Code, issued by CIPFA has always contained a statement that local authorities should not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Paragraph 46 of the Statutory Guidance on Local Government Investments states that ‘Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed’. However, para 47 of the Statutory Guidance also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management. The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order.</p>	<p>Deploy resources in a sustainable manner</p> <p>Informed decision making</p>	<p>We will review:</p> <ul style="list-style-type: none"> <li>• The underlying rationale for the Council’s proposed investments and clarity on how this sits with the Council’s strategy and objectives;</li> <li>• Legal powers and other advice obtained e.g. tax, investment decisions;</li> <li>• Compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code;</li> <li>• The Council’s MRP policy;</li> <li>• Clarity of governance arrangements for the Council’s decision making with regard to their investment property purchases;</li> <li>• Recognition and reporting of risks in the corporate/strategic risk register</li> </ul> <p>We will also consider the extent to which the Council has demonstrated the key Prudential Code considerations:</p> <ul style="list-style-type: none"> <li>• Existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality</li> <li>• Demonstrating value for money in borrowing decisions</li> <li>• Security of borrowed funds</li> <li>• Extent of borrowing for investments and borrowing overall</li> <li>• The nature of the investment</li> <li>• Risks involved, including falling capital values, borrowing costs, illiquidity of assets.</li> </ul>





04

# Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for 2018/19 has been set at £1.321m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Licensing, Audit and General Purposes Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.990m which represents 75% of planning materiality. The rationale for using 75% is that we anticipate finding few or no errors during the audit. This expectation arises from our experience of the Council in the previous year.

**Audit difference threshold** - we propose that misstatements identified below this threshold are clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cash flow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Licensing, Audit and General Purposes Committee, or are important from a qualitative perspective.

**Specific materiality** - We have set a materiality of £1,000 for remuneration disclosures, related party transactions, members' allowances and exit packages. This is because these areas are perceived to be more sensitive to users of the financial statements.





05

## Scope of our audit





## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Council-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools;

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Licensing, Audit and General Purposes Committee.

Internal audit:

We will review the internal audit plan and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year where they raise issues that could have an impact on the financial statements.



06

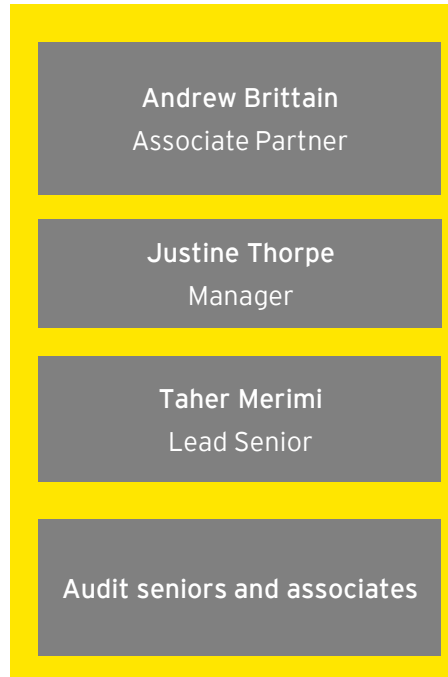
## Audit team





# Audit team

**Audit team structure:**



## Audit team

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### Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Wilkes, Head and Eve - RICS Registered Valuers EY Property specialists
Pensions disclosure	EY Actuaries PWC Actuary commissioned by NAO Aon Hewitt- Actuary

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.





07

## Audit timeline







## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Licensing, Audit and General Purposes Committee and we will discuss them with the Committee Chairman as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Licensing, Audit and General Purposes Committee meeting	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	December 2018	January 2019	Audit Planning Report
Interim audit testing	January to March 2019	March 2019	Interim audit progress report
Year end audit Audit Completion procedures	May to June 2019	July 2019	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	August 2019	September 2019	Annual Audit Letter





08

Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you promptly on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ Any principal threats to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ Any safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and Andrew Brittain, Associate Partner, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged for them;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the audit we are also required to communicate with you whenever we make any significant judgements about threats to objectivity and independence, and the appropriateness of safeguards, e.g. when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged for the provision of services during the reporting period are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified. We therefore confirm that EY is independent and the objectivity and independence of Andrew Brittain, your audit engagement partner, and the audit engagement team have not been compromised.

### Self interest threats

A self-interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees for non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services have been undertaken. No additional safeguards are required.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self-interest threats at the date of this report.

### Self review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>





09

## Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2018/19	Final fee 2017/18	Planned fee 2017/18
	£	£	£
Total Fee - Code work	38,375 (1)	49,838	49,838
Additional fee for VFM work	(2)	1,873	0
Other non-audit services not covered above (Housing Benefits)	N/A	7,511	7,511
<b>Total fees</b>	<b>38,375</b>	<b>59,222</b>	<b>58,490</b>

#### *All fees exclude VAT*

Note:

(1) Our 2018/19 Code work includes additional planned procedures highlighted in section two of this report to address the new accounting requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers for the 2018/19 accounts. As at the date of our planning report the Council is yet to evidence their assessment of the impact of these standards, and so we cannot currently quantify the expected scale fee variation for these additional procedures. We will agree this with management, depending on the identified impact of the new standards.

(2) As noted above the Council's significant financial pressures and resulting commercial activity present additional value for money risks and therefore we may need to undertake additional VfM procedures that are incremental to those assumed in the PSAA's scale fee. The scale fee is based on historic levels of activity and risks. We will work with management to minimise the fee impact, but an increased fee is likely due to the extent of the value for money risks.

The audit fee covers:

- ▶ Audit of the financial statements
- ▶ Value for money conclusion
- ▶ Whole of Government Accounts.

For Rushmoor Borough Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- ▶ The overall level of risk for the audit of the financial statements is not significantly different from the previous year;
- ▶ Officers meet the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion is unqualified;
- ▶ Appropriate quality documentation is provided by the Council;
- ▶ There is an effective control environment;
- ▶ Prompt responses are provided to our draft reports.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.



Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.



## Appendix B

# Required communications with the Licensing, Audit and General Purposes Committee





We have detailed the communications that we must provide to the Licensing, Audit and General Purposes Committee.

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Licensing, Audit and General Purposes Committee 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.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	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, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report






## Appendix B

# Required communications with the Licensing, Audit and General Purposes Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Ask the Licensing, Audit and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the Council's related parties including, when applicable:               <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> </ul> </li> </ul>	Audit results report

## Appendix B

# Required communications with the Licensing, Audit and General Purposes Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on the objectivity and independence of EY and all audit team members</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ Any principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Enquiry of the Licensing, Audit and General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Licensing, Audit and General Purposes Committee may be aware of</li> </ul>	Audit results report
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report
Representations	Written representations we request from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters included in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit planning report and Audit results report

## Additional audit information

### Other required procedures during the course of the audit

As well as the key areas of audit focus outlined in section 2, we must perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline these below.

#### Our responsibilities as required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements (either from fraud or error), design and perform audit procedures considering those risks, and obtain enough appropriate audit evidence to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining enough appropriate audit evidence on the financial information of the services provided by the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, whether the Licensing, Audit and General Purposes Committee reporting appropriately addresses matters communicated by us and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, we cannot anticipate all the circumstances that may influence our judgement about materiality. At the end of the audit we will form our final opinion by considering all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.