

Rushmoor Borough
Council
Audit results report

Year ended 31 March 2019

September 2020



EY

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Private and Confidential

September 2020

Dear Licensing, Audit and General Purposes Committee Members

We are pleased to attach our revised audit results report for the forthcoming meeting of the Licensing, Audit and General Purposes Committee on 28 September 2020. This report summarises our audit conclusion in relation to the audit of Rushmoor Borough Council for 2018/19.

The Council produced a second set of financial statements, on 17 July 2019 as a result of delays from challenging its property values during the original accounts production process. The Council met the statutory deadline of publishing its accounts by 31 July 2019 and provided an explanation as to why the audit opinion was delayed. A third set of statements, incorporating the adjustments from the audit was produced in March 2020. The finalisation of the audit was then further delayed by the outbreak of the Coronavirus pandemic. The ongoing disruption to daily life and the economy as a result of the Covid-19 virus would be expected to have a pervasive impact upon the finances of the Council, most notably in 2020/21. Understandably, the priority for the Council has been to ensure the safety of staff and the delivery of business critical activities. However, this has required the Council to revisit their going concern and post balance sheet events disclosures in the 2018/19 statements. We have now substantially completed our audit of Rushmoor Borough Council for the year ended 31 March 2019. Subject to concluding the outstanding matters listed in our report, we expect to issue an unqualified audit opinion on the final version of the financial statements, produced in September 2020, in the form at Section 3.

We also have one matter, in terms of the need for properly documented council wide risk management arrangements, to report to you as part of our work on your arrangements to secure economy, efficiency and effectiveness in your use of resources. We have qualified our Value for Money Conclusion on this basis.

This report is intended solely for the use of the the Licensing, Audit and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Licensing, Audit and General Purposes Committee meeting on 28 September 2020.

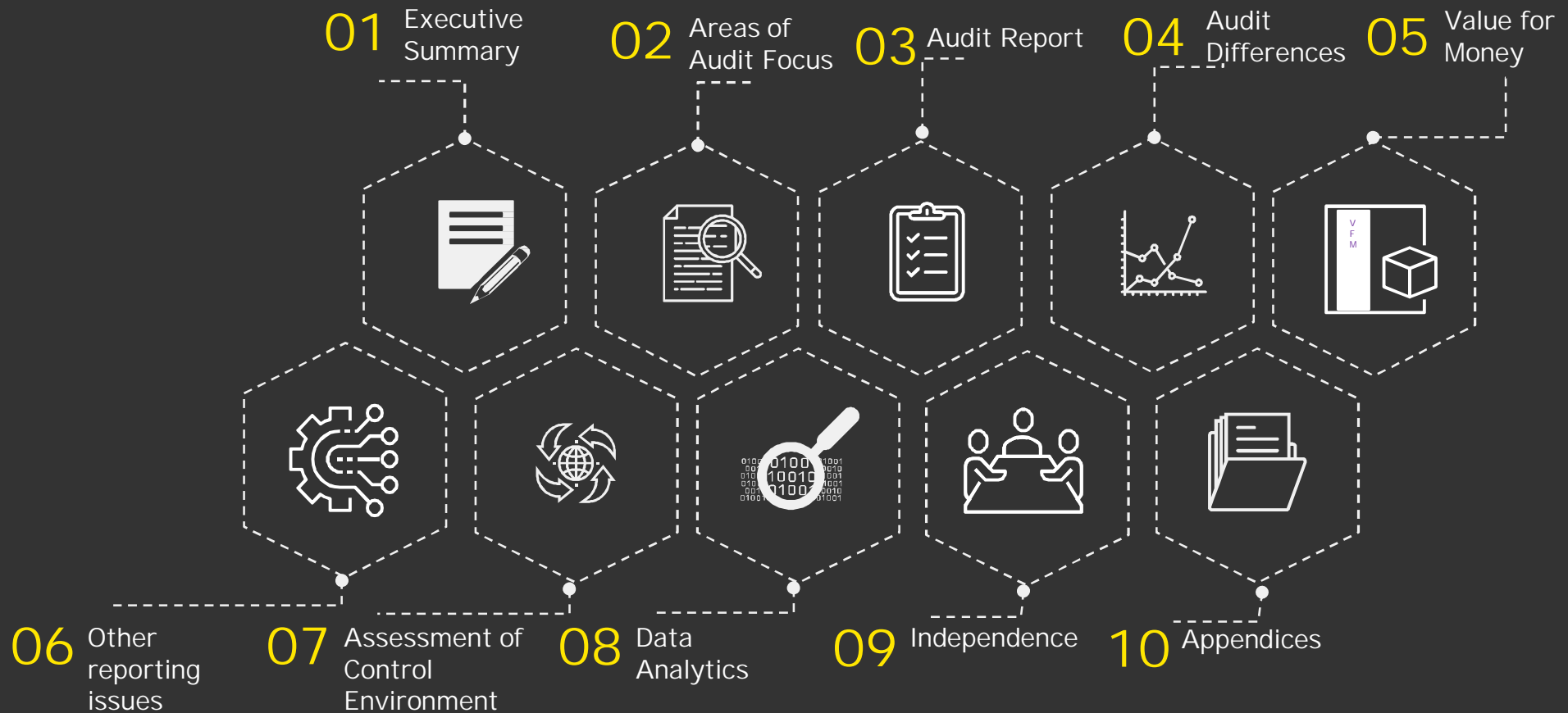
Yours faithfully

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

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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 April 2018)" 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 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 28 January 2019 Licensing, Audit and General Purposes Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

Going concern and its potential impact on the audit report

Covid-19 has been classed as an “event that may cast significant doubt on the entity’s ability to continue as a going concern”. Financial plans for 2020/21 and medium term financial plans needed revising for Covid-19. We considered that the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by management’s assessment with particular reference to Covid-19 and the Council’s actual year end financial position and performance.

Having increased the scope of our work in this area, in response to the above risk, we reviewed whether the:

- Covid-19 event constitutes a material uncertainty and whether an expected modification is required to the Council’s audit opinion;
- use of the Going Concern assumption is appropriate in the preparation and presentation of the Council’s 2018/19 financial statements; and
- Covid-19 disclosures in the Council’s 2018/19 financial statements are appropriate.

We currently going through a risk and consultation process to complete this work, consistent with all audit reports being currently issued by the firm.

Materiality:

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.321m, with performance materiality, at 75% of overall materiality, of £0.990m, and a threshold for reporting misstatements of £66k. We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, our overall materiality assessment has remained unchanged at £1.321m, with performance materiality, at 75% of overall materiality, remaining at £0.990m.

The basis of our assessment has remained consistent with prior years at 2% of gross expenditure.

Status of the audit

We have substantially completed our audit of the Council’s financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion on the Authority’s financial statements in the form which appears at Section 3. At the time of writing the outstanding matters are:

- Review of the final version of the financial statements;
- Completion of going concern assessment and subsequent events review;
- Completion of our mandatory internal consultation process on the disclosures in relation to COVID-19;
- Receipt of the signed management representation letter;
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

However until work is complete, further amendments may arise. We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Changes to the financial statements and audit differences

Changes to the financial statements:

The lack of timely production of property information, required for PPE valuation estimates, delayed the Council's production of materially accurate financial statements. The Council published a set of financial statements on 31 May which had materially incorrect fair values for its operational property and investment properties. A second set of financial statements, produced on 17 July 2019, incorporated revised asset values for 15 assets and reported a reduction in asset values of £11.658 million compared to the Financial Statements considered by the Licensing, Audit and General Purposes Committee on 6 June 2019.

In the revised version of the financial statements, there was also one other adjustment due to the McCloud national pensions issue, which resulted in a pension net liability increase of £1.36 million to £47.196 million.

A third version of the Council's financial statements, produced in March 2020, incorporates the following adjustments:

- PPE Valuation changes for Land & Buildings and Investment Properties; and
- Financial instruments note amendments
- Minor changes to the narrative statement

A final version of the Council's financial statements, produced in July 2020, incorporating additional disclosures in relation to the COVID-19 pandemic.

Audit differences

- Audit differences in the Council's financial statements are detailed in section 4 of this report.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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

- there are no other considerations or matters that could have an impact on these issues
- you agree with the resolution of the issue
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Licensing, Audit and General Purposes Committee.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, during the audit we identified a number of observations and improvement recommendations on (1) the Council's Risk Management arrangements, set out in Section 5 – Value for Money; and (2) the timely production of property information, required for PPE valuation estimates which delayed the Council's production of its financial statements, discussed in Section 6 of this report.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified two significant risks and our findings on these are reported in Section 5 of this report. In summary, we found:

- Delivery of a sustainable medium term financial plan - The Authority's strategy of increasing revenue through commercial investments, alongside the savings plan, appears to be reasonable. The Authority is becoming more reliant on the income from property investments than in previous years, as they have made a number of acquisitions during 2018/19.
- Commercialisation and the purchase of investment properties: Income from commercial investment properties was forecast to increase by £3.037m between 2018/19 and 2019/20 to £3.191m as the Council purchases more investment properties. The rate of return on the commercial property investments is higher than their interest rates on debt, which shows that property investments are, as at 31 March 2019, profitable, as the investments have been funded by borrowing.

Council's Risk Management arrangements: As a result of observations from the our work above we carried out additional work on the Council's Risk Management arrangements and found that the Council has not revised its risk management framework during 2018/19, nor has it documented how it has effectively managed its key strategic risks during 2018/19. The Corporate Risk Register had not been updated since January 2018.

We note that the Council had failed during 2018/19 to the implement the findings in the 2017/18 Audit Results Report and the actions from the 2017/18 Annual Governance Statement on how it could further improve Risk Management. Its revised risk management arrangements put in place in 2017/18 have lapsed due to resource constraints. We have therefore given an "except for" qualified value for money conclusion for the Council for 2018/19, as shown in Section 3.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Whilst the information is consistent, we suggest regular monitoring of the implementation of actions for the nine governance issues in the 2018/19 AGS action plan by the Licensing, Audit and General Purposes Committee, and monitored by CMT each month. This will give members and officers the assurance that good progress is being made on these key governance issues and avoid, where possible, issues being carried forward as they have done for the Council's risk managements arrangements.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence. We have no matters to report.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

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 judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered of the effectiveness of management's controls designed to address the risk of fraud.

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

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

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.

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 Authority's normal course of business.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – capitalisation of revenue expenditure

What is the risk?

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 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.

What judgements are we focused on?

We focussed on the testing capital expenditure and obtaining evidence that additions have been correctly classified as capital expenditure.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- Tested a sample of capital expenditure at a lower testing threshold, to verify that revenue costs had not been inappropriately capitalised;
- Reviewed unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

What are our conclusions?

Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.



Areas of Audit Focus

Significant risk

Significant risk – valuation of property, including investment properties

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

In assessing this risk, we considered the material valuations of operational and investment property held by the Council, the varied nature of these assets and the basis on which they are valued, including the need to apply judgement. We also considered the assets not revalued in year to assess the likelihood of material misstatement within the population. The Code of Practice on Local Authority Accounting states that where assets are revalued, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that using the current value at the end of the reporting period. Each class of asset should normally be valued at least every five years, subject to this requirement.

What judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2018/19 and of the key assumptions input into these valuations.

We have also considered those assets that were not valued in 2018/19 and the potential for material misstatement in the valuation of those assets.

What did we do?

We took a substantive approach to respond to this risk, undertaking the procedures set out below. We disaggregated the Council's property portfolio to determine those asset classes where more judgement was required in the valuation of assets. We:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated; and
- Ensured accounting entries had been correctly processed in the financial statements.



Areas of Audit Focus

What are our conclusions?

Changes to PPE asset values

- The lack of timely production of property information, required for PPE valuation estimates, delayed the Council's production of materially accurate financial statements. The Council published a set of financial statements on 31 May which had materially incorrect fair values for its operational property and investment properties as officers were in the process of challenging its valuers (Wilks, Head and Eve) over the value of 15 assets that had been revalued in 2018/19.
- A second set of financial statements, produced on 17 July 2019, incorporated revised asset values for these 15 assets which resulted in a reduction in asset values of £11.658 million compared to the Financial Statements considered by the Licensing, Audit and General Purposes Committee on 6 June 2019.

Additional audit procedures

- In order to comply with the code the Council now discloses its five year cyclical programme of revaluation which clarifies when the Council is valuing its assets, on a category by category basis, over a 5 year period.
- Responding to our assessment of risk as outlined above, we performed additional audit work (using our EY Real Estates specialists) on asset valuations that were:
 - (a) valued in the financial year 2018/19 to test the adequacy of in-year asset valuation; and
 - (b) valued in 2017/18 and the three years previously to assess whether those asset values are representative of Fair Value at 31 March 2019.

Our work identified a number of valuation adjustments as discussed in section 4.

PPE Valuation adjustments:

- Land & Buildings (L&B):
 - Lysons Depot: understatement of value of £1.438 million, increasing the value of the Depot to £2.23 million;
 - Devereux House (including Bevan Lodge): understatement of value of £1.01 million, increasing the value of the asset to £1.55 million;
 - Community centres: increased in value of £1.13 million to recognise a more appropriate basis for valuation;
 - projected increase in value across the remainder of the L&B population of £1.0 million.
- Investment Properties (IP):
 - Cumulative increase in value of £3.65m for Dominion Road, Invincible Road, Ashbourne Rd;
 - projected increase in value across the remainder of the IP population of £1.7m;

At the time of writing this report, our final review of the financial statements to agree that the all final adjustments have been correctly processed is still to take place.



Areas of Audit Focus

Significant risk

Pension Net Liability Valuation

What is the 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 Berkshire County Council Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead Unitary Authority (RBWM).

The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £276.125m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to RBWM. Accounting for this scheme involves significant estimation and judgement and therefore management engages the 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 judgements are we focused on?

The significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size. Small changes in assumptions when valuing the pension net liability valuation can have a material impact on the financial statements.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures. We:

- liaised with the auditors of the Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Rushmoor Borough Council.
- assessed the work of the Pension Fund actuary, Aon Hewitt, including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

In 2019, there has also been an ongoing national issue which has meant that a change was required to the Council's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". Officers requested their actuary update their estimate of net pension scheme liability taking into account the McCloud ruling.

As a result one adjustment was made by officers which reflected that the Council's Pension liability increased by £1.36 million to £47.196 million, and to increase past service costs accounted for through the Income Statement by an equivalent amount, to reflect the impact of the McCloud ruling.

Subject to completion of the remainder of our audit procedures, we are satisfied that the Council has correctly reflected the IAS 19 entries provided by their actuaries in the financial statements.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

IFRS 9 Financial instruments

This new accounting standard is applicable for local authority accounts from this financial year and changes:

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

We have:

- Assessed 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. This involved:
 - Reviewing the Council's election to designate their collective investment vehicles as financial asset through other comprehensive income'
 - Considering whether the vehicles met the definition of equity under IAS 32 to allow the Council to make the election; and
 - Consulting internally with our financial reporting experts on the classification of the financial instruments
 - Considered the classification and valuation of all other financial instrument assets
 - Reviewed new expected credit loss model impairment calculations for assets; and
 - Checked additional disclosure requirements.

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from this 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 impact on local authority accounting was 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 could change and new disclosure requirements have been introduced.

What we found

Following technical guidance we identified that the Council's collective investment vehicles do not meet the definition of 'equity instruments'. As the instruments did not meet the definition of equity the Council cannot elect to the present the instruments as 'Fair value through other comprehensive income' in the financial instruments note.

This resulted in classification of the collective investment vehicles being adjusted from 'Fair value through other comprehensive income' to 'Fair value through profit and loss.'

- CIES: Amendment of the £117k Surplus from investing in equity instruments designated at fair value through other comprehensive income. Also shown on the Gains and Losses Note.
- Note 17 - Financial instruments - a £22.305 million reclassification between FVOCI and FVPL.
- Note 24: Unusable reserves - a £422k reclassification between the Financial Instrument Revaluation Reserve and the Pooled Investment Fund Adjustment Account while the statutory override remains in place.
- Removal of election to designate FVOCI (within note 17) - the narrative in the disclosure note therefore needed to be updated to reflect the above.

We:

- assessed 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
- checked additional disclosure requirements.

We have no issues to report.



03 Audit Report



Audit Report

Draft audit report*

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Rushmoor Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

Authority Movement in Reserves Statement,

- Authority Comprehensive Income and Expenditure Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement; and
- Related notes to the Core Financial Statements 1 to 39;
- 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Rushmoor Borough Council and Group as at 31 March 2019 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 2018/19

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Rushmoor Borough Council and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01,

and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19

We draw attention to [XXXX] of the financial statements, which describes the economic consequences the Council is facing as a result of COVID-19 which is impacting its operational and financial position and performance during 2019/20, 2020/21 and beyond.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Head of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Executive Head of Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.



Audit Report

Our opinion on the financial statements

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

The Council has not revised its risk management framework during 2018/19, nor has it documented how it has effectively managed its key strategic risks during 2018/19. The Corporate Risk Register had not been updated since January 2018. We noted that the Council has failed to take account of our findings in last year's Audit Results Report on how they could further improve Risk Management and new arrangements put in place in 2017/18 have since lapsed due to resource constraints.

The Council is undergoing significant internal transformation and was involved in extensive regeneration partnerships in 2018/19. However, there is no centralised formal documented process which highlights the gross risks, the controls and mitigating actions to give an overview of the risks the Council faces and holds officers to account for those risks. We note that officers consider risk every day, however there is no framework in place to demonstrate that or show that the Officers and Members are strategically managing risk.

The issue above is evidence of weakness in informed decision making as result of not having proper arrangements in place for managing risks effectively and maintaining a sound system of internal control.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Rushmoor Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 Council;
- 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.



Audit Report

Our opinion on the financial statements

Responsibility of the Executive Head of Finance

As explained more fully in the Statement of the Executive Head of Finance's Responsibilities set out on page 12, the Executive Head of Finance 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Head of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority 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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 (C&AG) in November 2017, 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 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 2019.

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.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority 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 Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.



Audit Report

Our opinion on the financial statements

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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.

Use of our report

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 Rushmoor Borough Council and Rushmoor Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



04 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 changes to the financial statements and audit adjusted differences

Changes to the financial statements:

- Second version of the financial statements: A second set of financial statements, produced on 17 July 2019, included revised asset values for 15 assets and reported a reduction in asset values of £11.658 million compared to the 31 May Financial Statements considered by the Licensing, Audit and General Purposes Committee on 6 June 2019. It also included the adjustment due to the McCloud national pensions issue, which resulted in a pension net liability increase of £1.36 million to £47.196 million
- Third version of the financial statements: A third version of the Council’s financial statements, produced in March 2020, included a number of Property, Plant and Equipment (PPE) adjustments for Land & Buildings, Community Assets and Investment Properties and changes to the financial instrument disclosure.

Audit adjusted differences:

PPE Valuation adjustments:

- Land & Buildings (L&B):
 - Lysons Depot: understatement of value of £1.438 million, increasing the value of the Depot to £2.23 million;
 - Devereux House (including Bevan Lodge): understatement of value of £1.01 million, increasing the value of the asset to £1.55 million
 - Community centres: increased in value of £1.13 million to recognise a more appropriate basis for valuation;
 - Projected increase in value across the remainder of the L&B population of £1.0 million.
- Investment Properties (IP):
 - increase in value of £3.65m for Dominion Road, Invincible Road, Ashbourne Rd combined;
 - projected increase in value across the remainder of the IP population of £1.7m.

Financial instruments note amendments

- CIES: Amendment of the £117k Surplus from investing in equity instruments designated at fair value through other comprehensive income. Also shown on the Gains and Losses Note;
- Note 17 - Financial instruments - a £22.305 million reclassification between FVOCI and FVPL.
- Note 24: Unusable reserves - a £422k reclassification between the Financial Instrument Revaluation Reserve and the Pooled Investment Fund Adjustment Account while the statutory override remains in place.
- Removal of election to designate FVOCI (within note 17) - the narrative in the disclosure note therefore needed to be updated to reflect the above.



Audit Differences

Summary of adjusted differences (continued)

McCloud national pension issue:

- o There was a pension net liability increase of £1.36 million for the Council as a result of the McCloud judgment around age discrimination in the award of pension benefits.

Unadjusted audit differences

- Decrease in value of L&B of £0.65m relating to the cumulative adjustments for Pinehurst & High St car parks, Union St and Aldershot pools;
- Potential projected increase in value of £0.5m for L&B.
- Guaranteed Minimum Pension (GMP) increase in pension liability of £0.285 million.

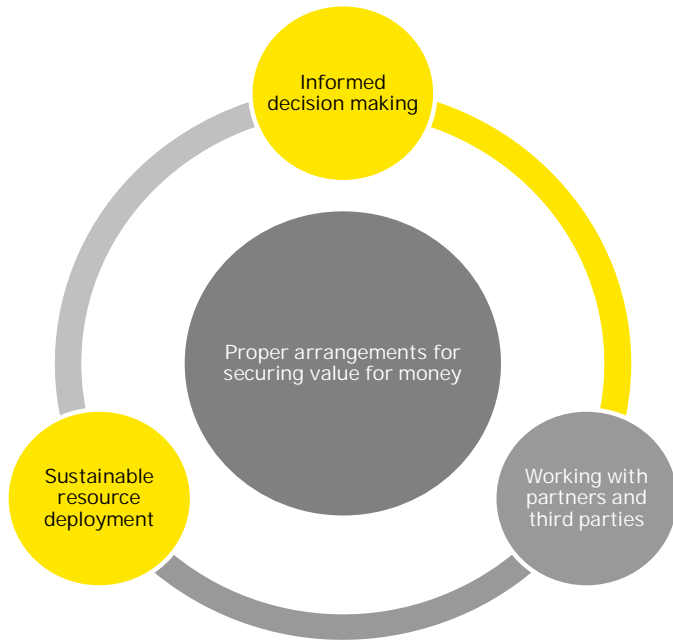
Disclosures

- *Note 13 – Property, Plant and Equipment: Five year cyclical programme of revaluation:* Officers have disclosed the Council's five year cyclical programme of revaluation which clarifies when the Council is valuing its assets, on a category by category basis, over a 5 year period.
- *Note 34 – Related parties:* The "financial assistance to voluntary organisations" was changed from £0.542m to £1.0525m. The number of members was corrected to 38.
- There were also other minor changes to the disclosure notes and narrative statement that were made during the course of the audit.



05

Value for Money Risks



Background

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

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 in place and to report on through documents such as your annual governance statement.

Overall conclusion

As part of our audit planning report we identified two significant risks. These were:

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

We were able to conclude that proper arrangements were in place in relation to these two risks.

In addition, during the course of our work in following up recommendations made in previous reports, we identified issues with Council's formal risk management framework, which resulted in further examination of the arrangements in place.

As a result of these we therefore plan to issue an "except for" qualified value for money conclusion in relation to formal risk management arrangements,

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What did we do?																																			
<p>Delivery of a robust Medium Term Financial Plan (MTFP)</p>																																					
<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 have:</p> <ul style="list-style-type: none"> assessed the key assumptions made within the annual budget and MTFP reviewed the progress made in identifying savings for 2019/20 and beyond; assessed the effectiveness of project management and clarity of reporting to members in overseeing the Rushmoor 2020 transformational projects and income generation opportunities; reviewed the Council's business planning process for both generating savings and also undertaking commercial and regeneration projects. 																																			
<table border="1"> <thead> <tr> <th data-bbox="120 753 389 842">Revenue forecasts 18/19 to 21/22</th> <th data-bbox="389 753 613 842">2018/19 (£000)</th> <th data-bbox="613 753 837 842">2019/20 (£000)</th> <th data-bbox="837 753 1030 842">2020/21 (£000)</th> <th data-bbox="1030 753 1254 842">2021/22 (£000)</th> </tr> </thead> <tbody> <tr> <td data-bbox="120 842 389 895">Net budget</td> <td data-bbox="389 842 613 895">11,957</td> <td data-bbox="613 842 837 895">13,616</td> <td data-bbox="837 842 1030 895">14,667</td> <td data-bbox="1030 842 1254 895">16,384</td> </tr> <tr> <td data-bbox="120 895 389 948">Total funding</td> <td data-bbox="389 895 613 948">-11,275</td> <td data-bbox="613 895 837 948">-10,886</td> <td data-bbox="837 895 1030 948">-11,585</td> <td data-bbox="1030 895 1254 948">-12,542</td> </tr> <tr> <td data-bbox="120 948 389 1000">Funding gap</td> <td data-bbox="389 948 613 1000">682</td> <td data-bbox="613 948 837 1000">2,730</td> <td data-bbox="837 948 1030 1000">3,082</td> <td data-bbox="1030 948 1254 1000">3,842</td> </tr> <tr> <td data-bbox="120 1000 389 1053">Savings</td> <td data-bbox="389 1000 613 1053">-641</td> <td data-bbox="613 1000 837 1053">-2,559</td> <td data-bbox="837 1000 1030 1053">-3,055</td> <td data-bbox="1030 1000 1254 1053">-3,090</td> </tr> <tr> <td data-bbox="120 1053 389 1106">Funding gap</td> <td data-bbox="389 1053 613 1106">41</td> <td data-bbox="613 1053 837 1106">171</td> <td data-bbox="837 1053 1030 1106">27</td> <td data-bbox="1030 1053 1254 1106">752</td> </tr> <tr> <td data-bbox="120 1106 389 1165">Cumulative funding gap</td> <td data-bbox="389 1106 613 1165">41</td> <td data-bbox="613 1106 837 1165">212</td> <td data-bbox="837 1106 1030 1165">239</td> <td data-bbox="1030 1106 1254 1165">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
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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 & 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>																																					

Delivery of a robust Medium Term Financial Plan (MTFP) – our conclusions

- The Authority is taking steps to improve its financial resilience and sustainability in the long term by identifying savings opportunities, as well as opportunities to generate additional income, through their commercial investment approach.
- We have reviewed the key assumptions of the MFTP and obtained supporting working papers from the client. These support the conclusion that, on the whole, the assumptions are reasonable with the only outlier being the assumed inflation level, which is lower than the advised rate of above 2% received from Arlingclose by the Authority. Assumptions and key elements of the MFTP are monitored and reported on a quarterly basis by the Authority which allows them to actively track their progress and results, and review how they are performing compared to the plan.
- The Authority has anticipated a significant increase in its income streams throughout the MFTP compared to 2018/19. In addition to this, they have identified additional savings that can be made through contract renegotiation and their Rushmoor 2020 programme. The Authority has significant borrowing commitments which are being used to finance their commercial investments programme. This borrowing is compliant with the Prudential Code as they are borrowing to finance their spending needs rather than for investment purposes, and they are borrowing when they need the money rather than far in advance.
- The Authority's strategy of increasing revenue through commercial investments, alongside the savings plan, appears to be reasonable as at the end of the reporting period. The Authority is becoming more reliant on the income from property investments than in previous years, as they have made a number of acquisitions during 2018/19. The income from this revenue stream is dependent on occupancy rates and other variables so is also subject to fluctuation.
- Rushmoor 2020 is a programme developed by the Authority to modernise organisational arrangements and service delivery to bring about budget savings. The Authority's initial step was to identify where stakeholders felt improvements were necessary – this was conducted through speaking to members of the Authority's leadership, its staff survey and feedback from customers. The core programme of improvements was due to be in place by December 2020.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What did we do?
Commercialisation and the purchase of investment properties		
<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 reviewed:</p> <ul style="list-style-type: none"> the underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives; legal powers and other advice obtained e.g. tax, investment decisions; compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; the Council's MRP policy; clarity of governance arrangements for the Council's decision making with regard to their investment property purchases; the recognition and reporting of risks in the corporate/strategic risk register <p>We also considered the extent to which the Council has demonstrated the key Prudential Code considerations:</p> <ul style="list-style-type: none"> 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 demonstrating value for money in borrowing decisions security of borrowed funds extent of borrowing for investments and borrowing overall the nature of the investment risks involved, including falling capital values, borrowing costs, illiquidity of assets.

Commercialisation and the purchase of investment properties – our conclusions

- The key commercial development affecting the Authority is the development of its commercial property investment scheme. They have made property acquisitions throughout 2018/19 and are planning to continue acquiring properties in upcoming years, making this a much more significant revenue stream than previously. Income from commercial investment properties is forecast to increase by £3.037m between 2018/19 and 2019/20 to £3.191m. The Authority is forecasting a further £527k increase in this revenue stream the following year, after which it is forecast to stabilise. This was predominantly being funded by borrowing – their debt has increased by £13.5m year on year. This increased borrowing complies with the Prudential Code as it is being taken out to cover expenses and is within an appropriate timeframe of the expenses.
- Information around the commercialisation plans has been provided to Cabinet members in their monthly meetings. The Cabinet members have given approval prior to the property purchases and there is a steering committee in place to oversee the Rushmoor 2020 programme. The minutes give no indication of whether approval was unanimous or if there were any challenges to the purchase of the properties. Records indicate that there is appropriate oversight and regular reporting of the commercial programme but that there is no significant challenge being presented to the proposals that are being brought forward.
- In March 2019, the Authority stated that it had sought external advice upon the purchase of the investment properties regarding the physical structure of the properties. In addition to this, they sought legal and financial due diligence help. The Authority has provided information about who the firms were who provided this advice, and they were all experts in their respective fields. The Council has also received financial forecasting advice from Arlingclose, specialists in treasury advice, treasury management and financial consulting, which has been incorporated into their MTFP. And in addition, from Avison Young, a commercial real estate services firm, when undertaking property purchases. They have also received external help from Pixel Financial Management in order to complete the Medium Term Financial Planner. Pixel Financial Management are specialists in local government financing and funding so are appropriate experts in this field.
- During 18/19 the rate of return on the commercial property investments was higher than the interest rates on debt. This shows that the property investments profitable during 18/19, as the investments have been funded by borrowing. The rate of return on the properties is 4.25% and their current average rate of borrowing was 0.86%. During 18/19 the Authority did not have an up to date risk register to allow them to manage and quantify their risks. Consequently, we were not able to evaluate their current risk management arrangements as the information we were able to access was out of date (the most recent risk register was from January 2018). This is a weakness of the Authority which leaves it exposed to financial, strategic and management risks as they are potentially unaware of the most significant risks they are currently facing. This point is explained further below.

Qualified “except for” Value for Money Conclusion

Risk management arrangements

The Council’s risk management arrangements are identified as a governance issue to be addressed in the action plan in the Council’s 2018/19 Annual Governance Statement. There was no formal internal audit review of the Council’s risk management arrangements during 2018/19. Given the lapse in formal risk management arrangements during 2018/19, we will issue an “except for” Value for Money Conclusion in our Audit Report (in section 3) which stated that risk Council has not revised its risk management framework during 2018/19, nor has it documented how it has effectively managed its key strategic risks during 2018/19. The Corporate Risk Register was not updated during 18/19. The last update prior to March 2019 was January 2018.

We noted that the Council has failed to implement the findings in the 2017/18 Audit Results Report on further improving Risk Management and new arrangements put in place in 2017/18 have since lapsed due to resource constraints. The Council is undergoing significant internal transformation and was involved in extensive regeneration partnerships in 2018/19. However, there is no centralised formal documented process which highlights the gross risks, the controls and mitigating actions to give an overview of the risks the Council faces and holds officers to account for those risks. We note that officers consider risk every day, however there is no framework in place to demonstrate that or show that the Officers and Members are strategically managing risk.

Through our work we have observed the following which could help improve the risk management arrangements:

- An independent internal audit review of the effectiveness of the Council’s risk management arrangements in quarter four of 2019/20.
- Revision of the Council’s Corporate Risk Register with clear actions and timescales on how risks are managed going forward.
- Reappraisal of the risk appetite to ensure that the Council is operating at a risk level commensurate with that documented for its corporate risks.
- The formalising of risk registers for each service which underpin the Corporate Risk Register.
- Clarity on the role of the Licensing, Audit and General Purposes Committee in providing assurance over the effectiveness of the Council’s Risk Management arrangements, by understanding and commenting on the effectiveness of the whole process which then feeds into the Annual Governance Statement.
- Consideration of the role of the Scrutiny Committee in how its work programme may be risk based using the new Corporate Risk Register and as a result allow for the deep dive and scrutiny of risks and assurance on the effectiveness of the Corporate Risk Register as live tool for managing risk.

Whilst outside the scope of our work for 2018/19 and this Audit Results Report we understand that the Corporate Risk Management Group (CRMG) finalised the Risk Register in December 2019. At the CRMG’s meeting in March 2020 it is intended that the Risk Register is formally reviewed so that it can be reported alongside the Council’s wider Q4 Performance Framework. We note that the Licensing, Audit and General Purposes Committee’s Terms of Reference require it to consider the adequacy of the Council’s Risk Management arrangements for the financial year 2019/20.

We will follow-up on the above as part of our VFM work for 2019/20 and include it as a significant VFM risk in our 2019/20 audit plan.



06 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 Statement of Accounts 2018/19 with the audited financial statements.

- The financial and non-financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

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

- We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We found that it was consistent with other information from our audit of the financial statements and complies with relevant guidance.
- In section 8 of the 18/19 AGS it correctly documents that "Risk Management" is a governance issue that has been brought forward from 2017/18. The action to take forward is the "formal adoption of the risk management process and work carried out to embed risk management within all council activities" with a target date of September 2019. However, officers stated that a revised Corporate Risk Register was not available until the end of the December 2019 and therefore won't be formally adopted by Council until 2020.
- There are nine governance issues identified in total in the 1819 AGS action plan, and we suggest that a quarterly update of progress against the 1819 AGS actions is received by the Licensing, Audit and General Purposes Committee, and monitored by CMT each month, so that members and officers are assured that good progress is being made on these key governance issues.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. As the Council's assets, income, liabilities and expenditure are below the threshold set by HM Treasury, detailed audit of the return is not required for Rushmoor Borough Council.

We will submit the required return in due course following the completion of the audit.

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 Authority 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 Authority, 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.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include 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;
- Written representations we have requested;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations
- Going Concern
- Consideration of laws and regulations

We have nothing further to disclose on these matters that is not covered elsewhere within this report.

Other reporting issues

Going concern assessment

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 increases the need for the Council to undertake a detailed going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for this set of statements we need to see evidence of going concern up to October 2021.

We have scrutinised the Council's assessment of the impact of Covid-19 on its planned income and expenditure budgets, its revised financial plans and cashflow forecasts. We have challenged known outcomes, sensitivities, mitigating actions and key assumptions. We have also discussed with management the need to make specific disclosures in the statements on in the financial statements on going concern and post balance sheet events as well as updating the narrative statement. The final version of the statements includes these updated disclosures.

In addition to the above, we are required to consult internally within EY in respect of the wording of our auditor's report to ensure that it provides the appropriate assurance to the Council and its stakeholders. The auditor's report provided will reflect the outcome of the consultation, and potentially will include an Emphasis of Matter to draw the reader's attention to the additional disclosures. An Emphasis of Matter is not a qualification or modification to our audit opinion.



07

Assessment of Control Environment



Assessment of Control Environment

Internal financial control

It is the responsibility of the Authority 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 your auditor is to consider whether the Authority has put adequate arrangements in place 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 therefore 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 to you significant deficiencies in internal control, in particular those internal controls that might result in a material misstatement in your financial statements.

We do not have any significant deficiencies to bring to your attention, but we do have a observation based on the results of our audit procedures.

Robustness of the Fixed Asset Register (FAR)

Following the number of material adjustments required to Land & Buildings and Investments Properties in the Council's 2018/19 financial statements, detailed on page 12, we observed that the quality of the evidence underpinning the FAR could be improved. The Council's property department, in conjunction with the Council's external valuers, should closely liaise with the Finance Department and test the robustness of the values held, that the Council relies on to support the calculation of PPE and IP valuations. For example the accuracy of site plans, income levels and the appropriate bases for valuing assets. We recommend more of a detailed approach to asset records and valuation, rather than a desk-top review and a simple roll forward of values where assets are not valued in year.



08 Data Analytics



Use of Data Analytics in the Audit

▶ Data analytics – Journals Testing

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated January 2019, which we presented to 28 January 2019 Licensing, Audit and General Purposes Committee.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment.

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 Licensing, Audit and General Purposes Committee 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 the Licensing, Audit and General Purposes Committee on 23 March 2020.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your council, its directors, senior management and its affiliates. This includes all services provided by us and our network to your council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity; including those that could compromise independence and the related safeguards that are in place and, why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The page overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included below.

We confirm that none of the services listed overleaf have been provided on a contingent fee basis.

As at the date of this report, there are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	Note 1	38,375	38,375	49,838
Non-audit work for Housing subsidy grant claim	Note 2	Note 2	Note 2	7,511

Note 1: We are proposing to vary the scale fee in relation to the additional work on the following, the:

- treatment of collective investment vehicles under IFRS 9 (section 2);
- valuation of PPE and IP (section 2);
- adjustment and disclosure of the McCloud ruling with respect to the pensions liability (section 2);
- qualified except for VFM conclusion in section 3;
- two Value for Money significant risks in section 5;
- review of additional going concern assessment and disclosures in relation to COVID-19 (section 6).

Given the extending of the audit process and procedures needed in order to conclude, the impact of the above will be significant to the scale fee. We estimate at this point that it will be in the range of £35-40k. We will propose a final fee variation which need to be agreed with officers, and then approved by PSAA.

Note 2 – Housing benefit subsidy grant claim:

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. The Council has appointed another firm to act as reporting accountants in relation to the housing subsidy claim.






10 Appendices





Appendix A

Required communications with the Licensing, Audit and General Purposes Committee

There are certain communications that we must provide to the Licensing, Audit and General Purposes Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 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.	Audit planning report – January 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – January 2019
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 	Audit planning report – January 2019

Appendix A

		 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 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 	Audit results report – September 2020
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 • Material misstatements corrected by management 	Audit results report – September 2020
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Licensing, Audit and General Purposes Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial 	Audit results report – September 2020
Fraud	<ul style="list-style-type: none"> • Enquiries of the Licensing, Audit and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol 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. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Licensing, Audit and General Purposes Committee’s responsibility. 	Audit results report – September 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority'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 Authority 	Audit results report – September 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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>	Audit planning report – January 2019 and Audit results report – September 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur 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. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit results report in September 2020 and Annual Audit Letter in November 2020.

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report on 30 January 2019 and Audit results report in September 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and those charged with governance 	Audit results report in September 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report in September 2020
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report in September 2020
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report on 30 January 2019 And Audit results report in September 2020

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