

Rushmoor Borough Council

Draft Audit Results Report

Year ended 31 March 2020

19 July 2021

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

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19 July 2021



Dear Corporate Governance, Audit and Standards Committee Members

We are pleased to attach our draft initial audit results report for the forthcoming meeting of the Corporate Governance, Audit and Standards Committee (the "Committee") on 27 July 2021. This draft report summarises our audit progress, to date, and the initial findings in relation to the audit of Rushmoor Borough Council for 2019/20.

We are near completion of our audit of Rushmoor Borough Council for the year ended 31 March 2020. As set out in section 1, some issues have arisen as a result of Covid-19 which we have taken account of in our audit. The Council met its accounts publication deadline of 31st August 2020 but has struggled with responding to audit requests due to timing and other pressures on key staff. The audit is nearly complete and this report details the outcomes of the 2019/20 audit to date.

There have been significant delays with our audit for 2019/20 and we are keen to ensure we get the final required documentation through and are able to conclude the audit. Subject to the final information being received, we are hoping to issue our opinion in the coming few weeks. We have included an example opinion in Section 3 but this may change depending on what is available and our assessment of the information to follow.

We have had weekly meetings with your officers to go through the information required and this has helped to move things forward, we would want this to continue to the point of signing to maintain the momentum. We have also set out a timeline for the 2020/21 audit for the Council and asked that resources are made available to respond to the audit so that we can get the Council back on track.

This report is intended solely for the use of the Corporate Governance, Audit and Standards 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 draft report, with audit findings to date, with you at the Committee meeting on 27 July 2021.

Yours faithfully

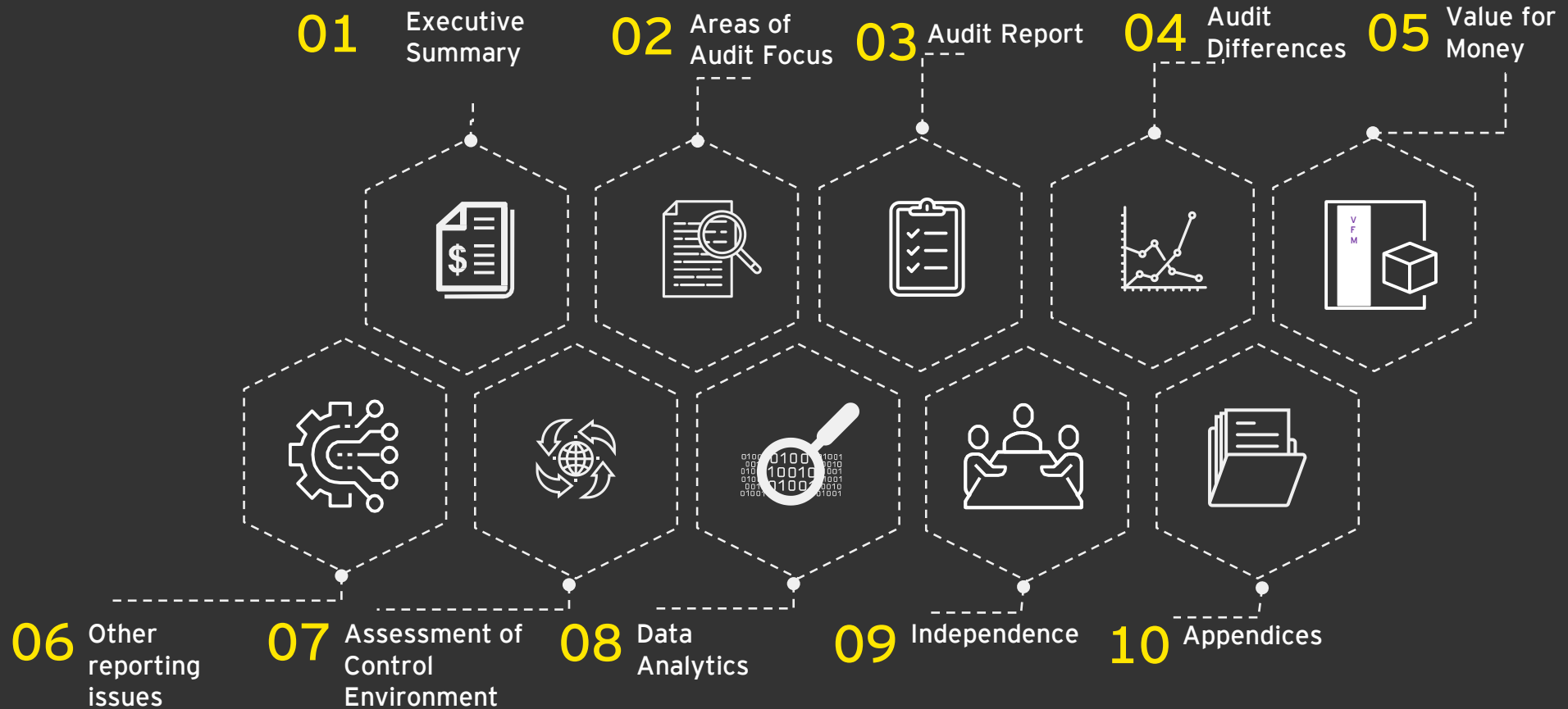
Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This 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 PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope and risk update

In our audit planning report presented at the 23 November 2020 Licensing, Audit and General Purposes (LAGP) Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the 2019/20 financial statements. We carried out our audit in accordance with this plan, and highlight the following issues where COVID-19 has had an impact on our audit.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, came into force on 30 April 2020. This announced a change to the publication date for final accounts from 31 July to 30 November 2020 for all relevant authorities. The 30 November 2020 was not a statutory deadline for the completion of the audit of the Council's 2019/20 financial statements.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Investment Properties and Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to the valuation and disclosures regarding those Property, Plant & Equipment and Investment Properties, which are held at Fair Value.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered 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 Local Authority's actual year end financial position and performance.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.512 million. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services.

- ▶ This results in updated performance materiality of £1.135 million, and an updated threshold for reporting misstatements of £75.6k.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Executive Summary

Scope update (continued)

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

Due to the impact of Covid-19, EY have introduced a consultation process for the audit report, to ensure the sufficiency of the audit work undertaken and the consistency of that work with the form of the final report.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. Our work is not yet complete in this regard as we require assurance up until the date of our audit opinion.

Status of the audit

We are in the process of completing our audit of Rushmoor Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our audit planning report.

We have set out in Appendix B the remaining areas of audit to be completed at the time of writing this report. Subject to satisfactory completion of those matters, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until the following work is complete, further amendments may arise.

Work outstanding includes:

- **PPE and IP valuation:** the provision of source valuation information, from the Council's property department, for both samples for the audit team and the EY Real Estate specialists. This is a significant audit risk (as discussed on page 12 of this report) and an agreed solution to these delays, from senior management, is critical to the conclusion of our audit;
- **Going Concern:** we have reviewed the latest information provided last week and have some final information needed from the Council and we will then complete our assessment looking at evidence up to 12 months after the opinion date.

Issues on the Query Log

- Final Engagement Lead and Manager review of the final position on concluded work, audit adjustments and reporting
- Production and review of the final version of the accounts
- Completion of subsequent events procedures to the date of signing the audit report
- Receipt of signed management representation letter

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Rushmoor Borough Council's financial statements. This initial report sets out our observations and conclusions, to date, 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 Committee.

Audit differences

If we identified any audit differences, we either ask for them to be corrected or a rationale given as to why they are not corrected, which is approved by the Committee and included in the Letter of Representation. If applicable, we set out the aggregated impact of unadjusted audit differences and whether we agree with management's assessment that the impact is not material.

We have detailed a number of adjusted and unadjusted audit differences at Section 4.

As the audit is ongoing it is possible that further adjustments may still arise.

Executive Summary

Control observations

We have adopted a fully substantive approach, so we have not tested the operation of controls. Our audit has yet to be completed, however no control issues have arisen as a result of our audit to date. [We have discussed these issues in Section 7.]

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 one significant risk around our Value for Money Conclusion, namely the

- Effectiveness of the Council's Governance and Risk Management Framework

Our findings, discussed in Section 5, showed that some improvements have been made and we have no matters arising in our VFM Conclusion for the 2019/20 financial year.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority.

- We have no other matters to report.

We have yet to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However, as the authority is likely to be below the NAO threshold, this consists simply of a return to the NAO.

- We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur, in terms of the potential incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked 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 the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements

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.

Our testing of journal entries did not identify any errors nor highlight any fraud issues.



Areas of Audit Focus

Significant risk

Incorrect 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 of £50,583 million in 19/20, although £4.188m of the underspend has been reprofiled into 2020/21.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

How the capital programme complies with proper capital strategy principles.

What did we do?

- ▶ Sample testing additions to property, plant and equipment 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.
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override in relation to the incorrect capitalisation of revenue expenditure.

We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.



Areas of Audit Focus

Significant risk

Valuation of Land & buildings - Property, Plant and Equipment and Investment Properties.

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents a significant balance, at £98.966 million and £106.605 million respectively, in the Council's accounts as at 31 March 2020 and are subject to valuation changes, impairment reviews and depreciation charges.

Covid-19 is likely to influence the valuation of the Council's investment properties. The valuation of property can be impacted in an abnormal market where there is a lack of comparative market transactions, where income is suddenly and dramatically reduced, and where the viability of tenants may be uncertain.

What judgements are we focused on?

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

What did we do?

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 their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers;
- ▶ 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. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- ▶ Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated at 31 March 2020;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested to confirm that accounting entries have been correctly processed in the financial statements.

In considering the above, we assessed the Council's approach to recognise any impact on valuations at 31 March 2020 arising from COVID-19. We asked our EY Real Estate specialists to assist us in this work.

Areas of Audit Focus

Significant risk

What are our conclusions?

For our 2019/20 audit, our EY Real Estate specialists (EYRE) tested a sample of assets to review the Council's Valuer's assessment of the robustness of valuations on a number of the Council's PPE and IP assets. We have received the majority of the supporting valuation evidence we requested from the Council's property department, to conclude on the fair value of the PPE and IP account balance in the Council's Balance Sheet.

There are however, gaps in the evidence provided against what was requested and this lack of supporting evidence is, again, causing us issues in the delivery of our 2019/20 audit opinion. We have highlighted this to management and have raised a recommendation at Section 7 regards proper books and records supporting key assets within the Property, Plant and Equipment and also the Investment Property portfolio.

As at the date of this report there are a number of assets which we have tested where we are still awaiting further documentation or clarification from Officers and also the external valuer. Last week we received a number of items from the outstanding information list, however there are still items that we need to see, without this information there is a risk that we will have material issues across the Property, Plant & Equipment and Investment Property portfolio.

Below we detail some of the key findings from our review of the asset portfolio to date.

o Land & Buildings (L&B) & Investment Properties (IP):

- Ski Centre, Aldershot; Fair Value £647,000 - We have held discussions with management and the valuer on this asset and are not comfortable with the approach being adopted to value the ski slopes nor have we, or the authority, been able to provide any benchmark data or original build cost data to support the adopted rate. We are therefore unable to conclude on this asset and have included as an unadjusted misstatement at Section 4. Our recalculation of the site area based on the site plan provided by management suggests that the site area adopted by the valuer is incorrect in addition to the land value being too low.
- Our experts sampled a total of 7 other assets excluding the ski centre referenced above. The cumulative value of the Gross Book Value (GBV) of the 7 assets as valued by the external valuer of the Council was £44.86 million. Using the point in range estimate developed by our internal valuers the 7 assets in total were within an acceptable range across the total with some slight variations on a small number of assets individually. However we are following up on a number of points of clarification in relation to their conclusions and so will provide an update at the Committee meeting;
- Upon our challenge of the assumptions supporting the Aldershot Lido asset the valuer subsequently re-worked this valuation and revised the valuation from £6.375 million to £5.453 million. Currently being reviewed by the audit team.
- Upon our challenge of the assumptions supporting the Investment Property at 10A Wellesley House the valuer increased the value from £416,290 to £426,510. Currently being reviewed by the audit team.

Areas of Audit Focus

Other areas of audit focus

In our audit planning report we identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Pension Liability Valuation

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 deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £48.6 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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

In the prior year the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Authority's actuary to be basing their assumptions taking into account the Authority's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.

What did we do?

We:

- ▶ Liaised with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Rushmoor Borough Council. We noted no material issues with the information supplied by the auditors of Hampshire County Council Pension Fund;
- ▶ 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 the National Audit Office 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.

There are two unadjusted audit differences

- Pension liability difference of £480,000 arising from reconciliation of planned assets used by the actuaries with the audited assets of the pension fund as at 31/03/2020
- Pension liability arising from Goodwin of £292,000. The Council have not adjusted for this judgmental difference based on the value and also the uncertainty in respect of future liabilities



Areas of Audit Focus

Other areas of audit focus

In our audit planning report we identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Going Concern

The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern 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 the 2019/20 statements, we will need to see evidence of an assessment up to and including July 2022.

We focus on management's assessment of the going concern assumption in preparing the Council's financial statements. We also review management's cash flow forecasts to determine whether expected forecasting appeared reasonable and whether it is sufficient to enable the Council to continue its operations.

We also discuss with management further disclosures required in the 2019/20 statements on going concern and in particular, material events and uncertainties up to and including July 2022.

What did we do?

- ▶ We reviewed the Committee's assessment of the appropriateness of the going concern assumption;
- ▶ We reviewed and challenged the level and form of disclosure of this assessment made in the financial statements, given the Covid-19 pandemic; and
- ▶ We reviewed the Council's cash flow forecasts and financial plans for the foreseeable future to ensure that these are sufficiently robust and supported by adequate evidence, and that the cash flow forecasts demonstrate that the Council has sufficient liquidity to continue its operations up to and including 31 July 2022.
- ▶ We received more information last week and we have raised a few follow up requests as a result and will then bring that together for our internal consultation process and will update the Committee on the outcome of this.



03 Draft Audit Report



Draft Audit Report

Draft audit report

Our opinion on the financial statements - Subject to Satisfactory Conclusion of Outstanding Items detailed within this Report

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 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Collection Fund, and
- The related notes 1 to 38 of the Authority's Financial Statements, notes 1 to 3 of the Collection Fund.

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Rushmoor Borough Council as at 31 March 2020 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 2019/20.

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 Rushmoor Borough Council 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.

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 (S151 Officer)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 (S151 Officer) 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, other than the financial statements and our auditor's report thereon. The Executive Head of Finance (S151 Officer) 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.



Draft Audit Report

Our opinion on the financial statements - Subject to Satisfactory Conclusion of Outstanding Items detailed within this Report

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. 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

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 April 2020, we are satisfied that, in all significant respects, Rushmoor Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Responsibility of the Corporate Financial Advisor (S151 Officer)

As explained more fully in the Statement of Responsibilities set out on page 16, the Executive Head of Finance (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Head of Finance (S151 Officer) 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.



Draft Audit Report

Our opinion on the financial statements - Subject to Satisfactory Conclusion of Outstanding Items detailed within this Report

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 April 2020, as to whether 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 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 2020.

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, 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. 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Reading

Xx July 2021

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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 audit differences

If we identified any audit differences, we either ask for them to be corrected or a rationale given as to why they are not corrected, which is approved by the Audit Committee and included in the Letter of Representation. If applicable, we set out the aggregated impact of unadjusted audit differences and whether we agree with management’s assessment that the impact is not material. Below we identify the agreed audit differences as at the date of this report. As we are still working on closing out a number of areas it is possible that further errors may occur

Adjusted audit differences:

- *Notes 13/14 - PPE and Investment Properties:* Aldershot Lido asset: the valuer subsequently re-worked this valuation and revised the valuation from £6.375 million to £5.453 million; 10A Wellesley House the valuer increased the value from £416,290 to £426,510
- *Note 17 - Financial Assets: Loss Allowance value in the draft financial statements was incorrect. Should be £671 k and not the £221 k as per the draft financial statements*
- *Note 34 - Related parties:*
 - The correct financial assistance total to be included in the note is £1,552,815. It has been understated by £243k.
 - The CIPFA Code states that all related parties should be disclosed regardless of the amount however RBC applied a materiality threshold of £30k which is consistent with 1819.

Disclosures:

- We have identified a number of disclosure and presentation amendments which management have agreed to amend



Audit Differences

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

Summary of unadjusted audit differences

If we identified any audit differences, we either ask for them to be corrected or a rationale given as to why they are not corrected, which is approved by the Audit Committee and included in the Letter of Representation. If applicable, we set out the aggregated impact of unadjusted audit differences and whether we agree with management’s assessment that the impact is not material.

Unadjusted audit differences:

- We have identified the following two audit differences in the draft financial statements which management has chosen not to adjust.
 - *Pension liability difference:*
 - This difference of £480,000 has arisen from the reconciliation between the value of planned assets used by the actuaries compared to the audited assets of the pension fund as at 31/03/2020.
 - There has been an increase in costs in pension liability of £292,000 arising from the Goodwin case.
 - Consideration of the ski centre asset and the uncertainty on the valuation of £647,000.

NB We need to complete the rest of our work on PPE/IP and then consider these issues along with other misstatements and determine the impact of this. We will update the Committee on progress at the meeting.

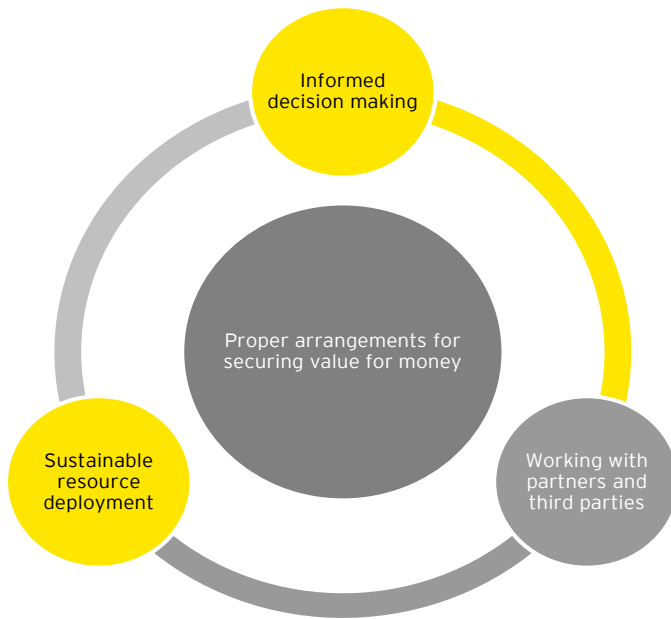


05

Value for Money



Value for Money



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 2019/20 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.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

Our value for money risk assessment, at the planning stage of the audit, considered both the potential financial impact of issues facing the Council, and also the likelihood that the issues will be of interest to local taxpayers, the Government and other stakeholders. At the time of planning, we identified one significant risk relevant to our value for money conclusion, which was the:

- Effectiveness of the Council's Governance and Risk Management Framework



Value for Money Risks

What is the significant value for money risk?

What arrangements does the risk affect?

What will we do?

Effectiveness of the Council's Governance and Risk Management Framework

During our 2018/19 audit, we identified issues with Council's formal risk management framework, which resulted in further examination of the arrangements in place. As a result, we issued an "except for" qualified value for money conclusion in relation to formal risk management arrangements.

Our 2018/19 audit opinion documented 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 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."

We reviewed whether risk management was better embedded, during 2019/20, with corporate risks being aligned to the delivery of the Council's strategic objectives in the Council Delivery Plan and whether the management of these risks was reported to members appropriately. Adequate risk management is required for members and officers to take informed decisions. We reviewed the effectiveness of the Council's Risk Management Framework and how this may be further improved.

Take informed decisions

Our approach will focus on:

- ▶ review of the adequacy of the Council's risk management arrangements;
- ▶ disclosures to be made in the Council's 2019/20 Annual Governance Statement on the effectiveness of the Council's Governance and Risk Management Framework.



Value for Money Risks

Effectiveness of the Council's Governance and Risk Management Framework

Adequacy of the Council's risk management arrangements

The Council's Risk Management arrangements are adequate. The Council's Corporate Leadership Team and its Corporate Risk Management Group both review the Council's Corporate Risk Register which has "Additional Mitigation Planned - including Timelines/Deadlines" and a residual risk score for each risk. Whilst there has been improvements in the Council's Governance and Risk Management Framework, during 2019/20, we suggest that risk management can be further embedded in the day to day business and reporting of the Council;

We suggest the Council considers the following suggestions:

- The risks to the delivery of the Council's strategic objectives, in the Council's Business Plan 2020 to 2023, should be recorded on the Corporate Risk Register on a strategic objective by objective basis, rather than on a thematic basis; for example, the following high corporate risks such as Equalities - Breach of Statutory Duties, Increased Focus on Recycling improvements from Central Government, Retail Sector general downturn, Restrictions on PWLB borrowing. These themes should be incorporated into the Council's business planning process.
- The Corporate Risk Register and underpinning service risk registers should also be aligned to these strategic objectives, which will allow for a golden thread enabling the Council's risk management issues and resulting actions to be integrated into the Council's Performance Management Framework. This will give the Council a holistic view of the effectiveness of service delivery and better reflect a more mature risk model, such as the Enterprise Risk Management approach.
- The Corporate Governance, Audit and Standards Committee should consider providing overall assurance to the Cabinet over the effectiveness of the Risk Management Framework arrangements. The Committee should receive an annual report on the adequacy of the Council's risk management, before the end of the financial year, as evidence underpinning the disclosures on the effectiveness of risk management in the Council's Annual Governance Statement.

Disclosures in the Council's 2019/20 Annual Governance Statement on the effectiveness of the Council's Governance and Risk Management Framework

- The disclosures in the 2019/20 AGS could be improved so that the AGS better describes the effectiveness of the Council's governance arrangements in year, any significant weaknesses and action plans for the resolution of prior year issues and issues going forward. The Council could better disclose how the Council's risk management framework enables the Council to achieve its strategic objectives and addressing areas for improvement.



06 Other reporting issues

Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20.

- We have reviewed the supporting evidence for the financial and non-financial information disclosed in the Narrative Report of the Statement of Accounts 2019/20, to ensure that it is consistent with our knowledge of the. We have no issues to report.

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

- No issues to report

Whole of Government Accounts

In addition to 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.

- We have yet to complete the return for the NAO.

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 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 have no issues to report in this respect.

Other reporting issues

Other reporting 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 Authority'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;
- Consideration of laws and regulations; and
- Group audits;

We have nothing to report on the above.

During our audit we identified the following which we will raise recommendations for improvement on - see Section 7:

- 1. Provision of property information:** We have reported on the critical delays in the provision of property information to support the material PPE and IP valuations in the Council's Balance Sheet.
- 2. Capacity of the finance department:** Our audit team has been working on the fieldwork for the audit of the Council's 2019/20 financial statements since 28 September 2020. Whilst there were some delays due to officer work pressures e.g, the was also delayed in January as officers needed to prioritise the production of the 2021/22, some of the information promised to us has failed on a number of occasions to meet agreed timelines
- 3. Declarations of interest:** We note that the Declaration of Interest Form was not returned by one of the members and we will not be able to conclude on that



07

Assessment of Control Environment

Assessment of control environment

Financial controls

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 have 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.

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.

We have identified the following significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2020/21 audit. We will discuss with management and follow up as part of 2021/22 audit.

| | High | Moderate | Low | Total |
|------------------------------|----------|----------|-----|----------|
| Total recommendations | 1 | 3 | | 4 |

- Key:**
- A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
 - Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
 - Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

The matters reported on the next slides are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Financial controls

Books and Records - Property, Plant and Equipment & Investment Properties (High)

The availability of basic asset information was a critical factor in the delay of the signing of the 2018/19 audit opinion. Throughout the audit we have identified numerous instances where the Council has struggled to provide upon request the information supporting an asset valuation on the Balance Sheet.

- Lease documentation provided has often been found to be out of date or not readily available;
- Rent Review Memoranda provided has often been found to be out of date and/or not signed as approved; and
- Land Registry deeds supporting title and ownership has been difficult to obtain and in a number of instances is still outstanding which is delaying the completion of our work.

Discussions with senior officers have re-iterated the importance of the maintenance of proper books and records.

Recommendation: The Council should ensure appropriate documentation is retained and accessible in relation to property plant and equipment and investment properties held.

Policies and procedures (Moderate)

We have found that key policies and procedures appear to be out of date (year in brackets) for example:

- Whistleblowing Policy (June 2016);
- Financial Procedure Rules (December 2006);
- Antifraud and Corruption Policy (June 2016);
- Officer Code of Conduct (February 2015);
- Councillor Code of Conduct (October 2014);
- Contract Stander Orders (April 2015).

The Council needs to ensure that its corporate polices on key governance topics, including business planning, anti-fraud, information security, equalities and diversity, health and safety and whistle blowing are complete and up to date.

Recommendation: The Council should have a central list of policies and procedures with a current date and due date for review. This should be regularly reviewed by senior management and capacity built in so these are kept up to date. Management should consider how the current situation, its impact and planned actions is reflected in the Corporate Risk Register.



Assessment of Control Environment

Financial controls

Officer capacity (Moderate)

The audit has been delayed due to the capacity of officers to respond to audit queries on a timely basis. In some instances this is due to the timing of the audit coinciding with other key finance duties e.g. budget setting, but on the majority of occasions, whilst we have agreed timelines with officers for information in our weekly meetings, the information has not been provided and the delivery has continued to slip. If we are to get the Council back on track with the audit timeline we need to be able to rely on the agreed timelines.

We have outstanding information for this 2019/20 audit which we need to receive so that we can tie up the audit and we have also agreed a timeline and audit visits for the 2020/21 audit planning and interim work. Subject to the completion of that we expect to follow with the final visit and get the 2020/21 audit completed by the end of this year.

This is all subject to us being provided with the remaining information needed for the 2019/20 audit and required information per agreed timelines for 2020/21.

Recommendation: The Council should ensure that there is appropriate capacity to respond to audit queries and deliver the required information to agreed timelines.

Declarations of interest (Moderate)

The Declaration of Interest Form was not returned by one of the members and therefore we were not able to conclude on that.

Recommendation: All Declaration of interest forms should be collected for all Members and key Officers and retained to ensure this control is in place and working and provide evidence of this.



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics

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 2019/20, our use of these analysers in the authority's audit included testing journal entries, 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.



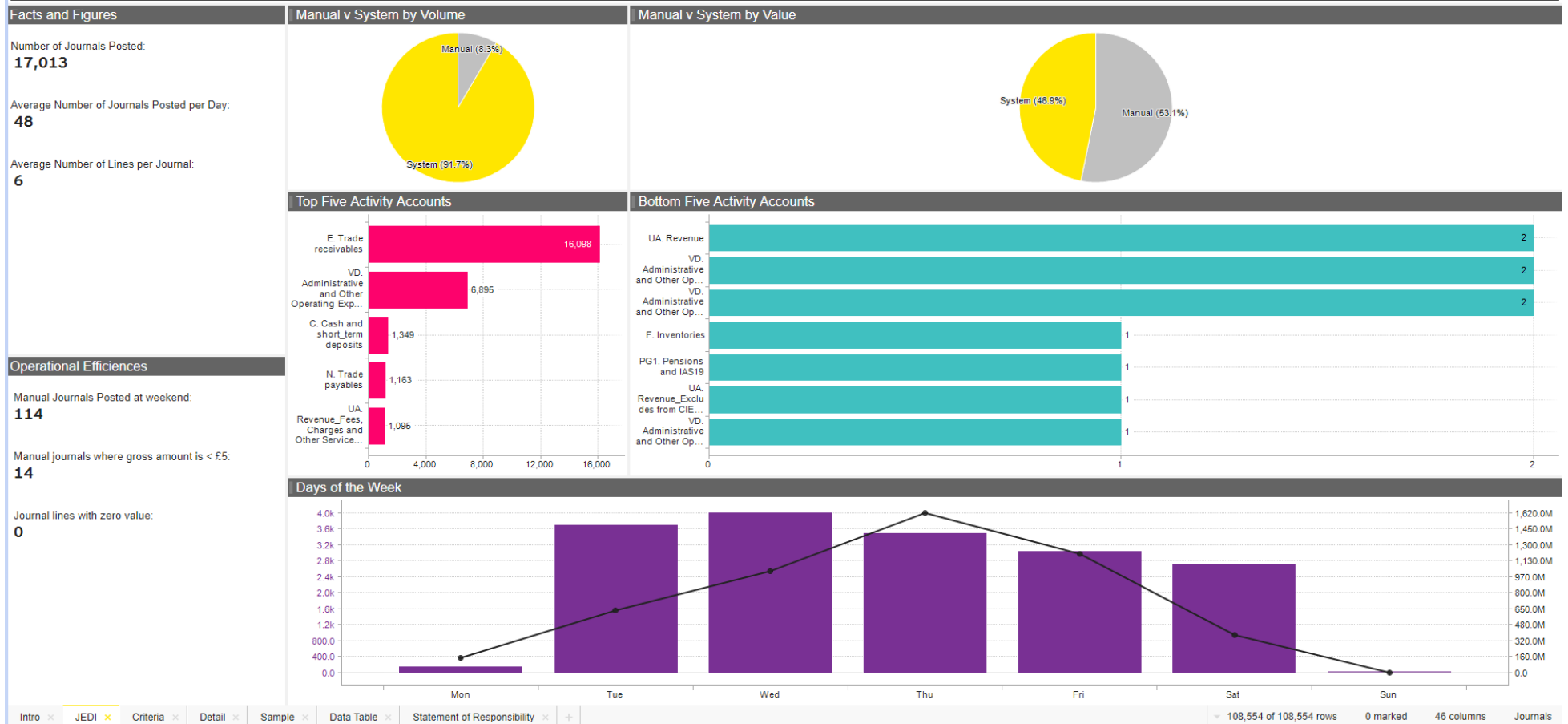
Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2019/20. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

EY Helix - GLASS: Journal Entry Data Insights - 20 Rushmoor Borough Council - P1 to P12 - 31/03/2020





Data Analytics

▶ Journal Entry Testing

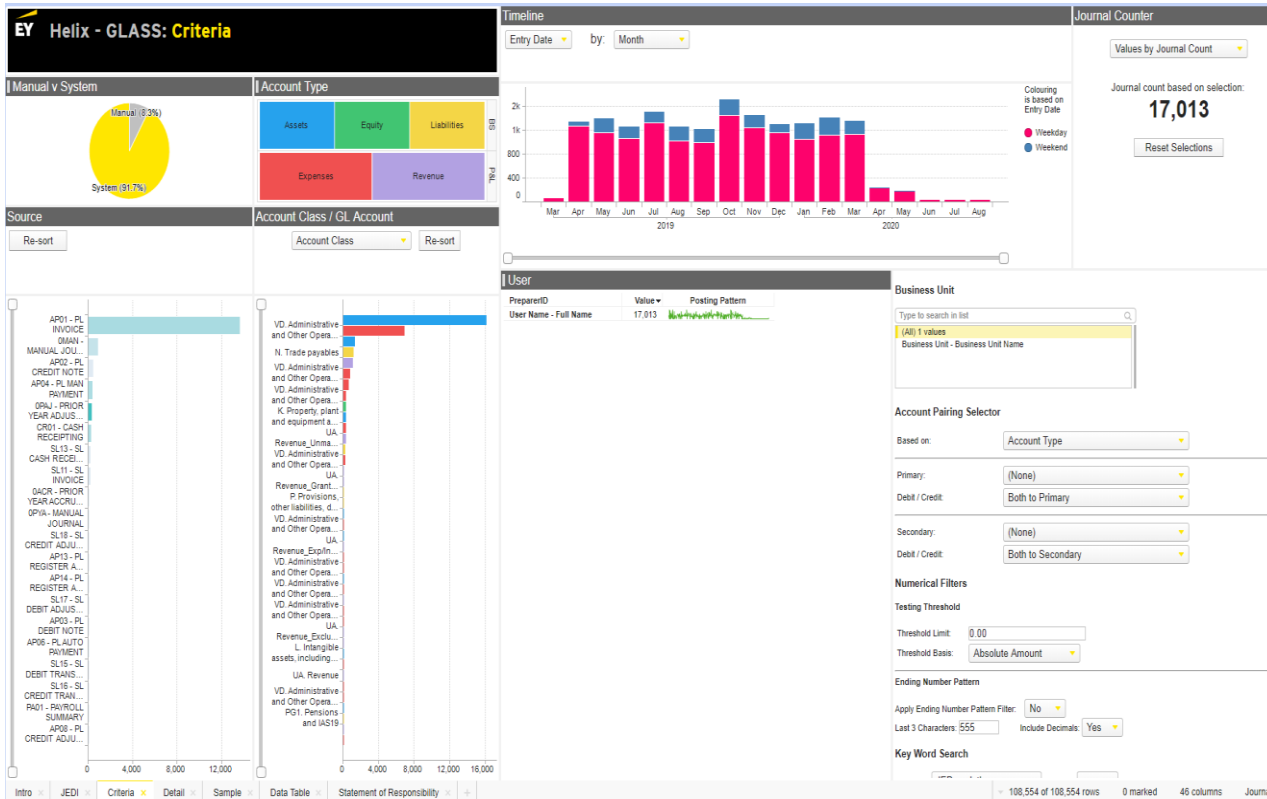
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2020



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated 18 May 2020.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your 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 Committee on 25 January 2020.

Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020. We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have complied with Auditor Guidance Note 1 issued by the NAO.

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work. A breakdown of our fees is shown below.

| | Planned fee 2019/20 | Final Fee 2018/19 |
|-------------------------------------|------------------------|----------------------|
| | £'s | £'s |
| Current Scale Fee - Code work | 38,375 | 38,375 |
| Increase in scale fee Note 1 | 28,091 | - |
| Scale fee variation Note 2 | TBC | 67,327 |
| Total fees (excl. VAT) | TBC | 105,702 |

As reported in our Audit Plan, the agreed fee presented is based on a number assumptions which include the timing of agreed deliverables being met; unqualified financial statement opinion and VfM conclusion; and quality documentation being provided in a timely way and controls being effective. Note 2 sets out issues that have impacted in 2019/20.

For 2019/20, the scale fee has been impacted by a range of factors (see following pages) which result in additional work. These factors were also reported in a national letter issued by EY to Chief Financial Officers and Chair of Audit Committees in February 2020.

Note 1 - The proposed increase reflects the increased risk and complexity facing all public sector bodies, adjusted for our knowledge and risk assessment for this Authority as well as the changes and incremental increase in regulatory standards. We have also adjusted the baseline fee to reflect our current assessment of the Authority's readiness for audit, including data analytics, quality of working papers. The proposed increase in the baseline fee is relatively consistent with other councils of a similar size, risk profile and complexity that EY audits.

Note 2 - The impact of Covid-19 on the audit and VfM conclusion impacted the work that was required to be done. As we near the conclusion of the audit, we will be in a position to quantify the impact of these additional procedures and where we propose a variation to the Authority's scale fee. We will discuss this with you.

At this stage we can confirm that there will be additional fees for 19/20 due to additional work required because of the following:

- Using EY Real Estate experts to assess the impact of Covid-19 on land and building valuations and the material uncertainty clause in the Authority's valuation report;
- Additional procedures to consider the Authority's going concern assessment;
- Consultation requirements concerning the impact on the Auditor's report from the land and building valuations material uncertainty clause and going concern assessment.
- Additional work on the significant VFM risk
- Extra time required to complete the audit which took longer than planned due to the availability of supporting evidence and working papers.

We will quantify and discuss additional fees at the conclusion of the audit with the s151 officer. All additional audit fees are also subject to approval by the PSAA.

Fees (continued)

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity.

Summary of key factors

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.
 - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.
2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.
 - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.
3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:
 - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.
 - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.



Fees (continued)

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.
 - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.
 - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

- In light of recent communication from PSAA, we have quantified the impact of the above to be able to accurately re-assess what the baseline fee is for the Authority should be in the current environment.







10 Appendices

Appendix A

Required communications with the Corporate Governance, Audit and Standards Committee

There are certain communications that we must provide to the Audit 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 Corporate Governance, Audit and Standards 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 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report |
| 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 results report |





Appendix A

| | | Our Reporting to you |
|-------------------------|---|----------------------|
| Required communications | What is reported? | When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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 |
| 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 |
| Subsequent events | <ul style="list-style-type: none"> ▶ Asking the Corporate Governance, Audit and Standards Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements. | |
| Fraud | <ul style="list-style-type: none"> ▶ Asking the Corporate Governance, Audit and Standards 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 Audit Committee responsibility. | Audit results report |

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 |
| 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> | <p>Audit planning report</p> <p>Audit results report</p> |

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. | All confirmations requested have been received |
| 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 Corporate Governance, Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Governance, Audit and Standards 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 |

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 results report |
| Written representations we request from management and/or those charged with governance | <ul style="list-style-type: none"> ▶ Written representations we request from management and/or those charged with governance | Audit results report |
| 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 |
| 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 |
| 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 Audit Results Report |

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

| Item | Actions to resolve | Responsibility |
|---|--|-------------------------------|
| PPE Valuation - provision of the supporting information - and EY review of that information | Query with management | EY and management |
| Issues on query log | Query with management | EY and management |
| Going Concern | Query with management | EY and management |
| Review procedures | Final Engagement Lead and Manager review of the final position on concluded work, audit adjustments and reporting including financial instruments, journals and income | EY |
| Statement of accounts | Production and review of the final version of the accounts | EY and management |
| Subsequent events review | Completion of subsequent events procedures to the date of signing the audit report | EY and management |
| Management representation letter | Receipt of signed management representation letter | Management and LAGP Committee |

Management representation letter

Management Rep Letter

Ernst & Young LLP
Apex Plaza
Reading
RG1 1YE

Dear Maria

This letter of representations is provided in connection with your audit of the financial statements of Rushmoor Borough Council (“the Council”) for the year ended 31st March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Rushmoor Borough Council as of 31st March 2020 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

B. Non-compliance with law and regulations, including fraud

We acknowledge that we are responsible to determine that the Group and Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Management representation letter

Management Rep Letter

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council’s financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council’s activities, their ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

Additional information that you have requested from us for the purpose of the audit; and

Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: TBC.

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

We have disclosed to you, and the Council have complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

ISA (UK) 501.12

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

Management representation letter

Management Rep Letter

E. Subsequent Events

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

We confirm that the content contained within the other information is consistent with the financial statements.

G. Reserves

We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

H. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

I. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, the IAS19 actuarial valuations of pension fund liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Estimates

PPE Valuations and Pensions Liability Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We confirm that the significant assumptions used in making the estimates for PPE and Pensions Liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Management representation letter

Management Rep Letter

We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

K. Retirement benefits

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

Yours faithfully,

(S151 Officer)

Chair of the Corporate Governance, Audit and Standards Committee

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