

Eastleigh Borough Council

Year ending 31 March 2013

Annual Audit Letter

30 October 2014

Ernst & Young LLP



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The Members
Eastleigh Borough Council
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30 October 2014

Dear Members,

Annual Audit Letter

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

We have already reported the detailed findings from our audit work to those charged with governance of Eastleigh Borough Council in the following reports:

2012/13 Audit results report for Eastleigh
Borough Council

Issued 24/09/13

2012/13 Further audit results report for Eastleigh
Borough Council

Issued 16/09/14

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

I would like to take this opportunity to thank the officers of Eastleigh Borough Council for their assistance during the course of our work.

Yours faithfully

K.L. Handy
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This 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 Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 16 July 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Reviewing the Annual Governance Statement;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Eastleigh Borough Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland).	On 24/09/14 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 24/09/14 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit and Resources Committee) communicating significant findings resulting from our audit.	On 16/09/14 we issued our final report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	Our report was sent to the National Audit Office on 29/09/14.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA/SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 24/09/14 we issued our audit completion certificate.

Issue a report to those charged with governance of the Authority summarising the certification (of grant claims and returns) work that we have undertaken.

On 18/12/13 we issued our 2012/13 certification report.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 24/09/14.

In our view, the quality of the process for producing the accounts, including the supporting working papers was appropriate.

The main issues identified as part of our audit were:

Valuation of, and accounting for, investment properties

We identified that some of the Council's assets did not meet the definition of investment properties as set out in the Code of Practice on Local Authority Accounting. The Code requires investment properties to be held solely for the purposes of capital appreciation or for rental income or for both. For the Council's properties which have been financed by prudential borrowing, the Council's express aim in purchasing these assets was to support its regeneration objectives across the Borough. This meant that a total of £39m of investment properties have been reclassified as property, plant and equipment in the accounts.

This adjustment is explained in the Council's accounts and is treated as a prior period adjustment. We found that your procedures to value the remaining investment properties were robust and we were able to satisfy ourselves that the values of your investment properties are not materially misstated.

AGEAS Bowl

In 2012 the Council entered into a series of lease arrangements with Hampshire County Cricket Ground Company Limited (HCCGCL). We highlighted in our Audit Plan that we would consider the accounting classification of these transactions as the sums are both material and of considerable public interest.

The Council proposed to account for the sub-leases issued for the wider stadium site to HCCGCL as operating leases. In our view this accounting treatment was incorrect as these transactions have the characteristics of finance leases. The Council's accounts have been amended to correct this and the above leases are now properly disclosed as finance leases. There were no revenue consequences of this adjustment.

Risk of misstatement due to fraud and error

Although management has the primary responsibility to prevent and detect fraud, our responsibility extends to planning and performing audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement whether caused by error or fraud.

We obtained reasonable assurance about whether the Council's financial statements as a whole are free of material misstatements whether caused by error or fraud and there were no significant issues arising from this work.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission in 2012/13, our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 24/09/14. We noted the following issue as part of our audit.

Financial resilience

We reported our initial conclusions from our work in this area in our audit results report of 24/09/13. We are required to take into account all information available up to the date of our auditor's report. We therefore took account of the findings and conclusions from our 2013-14 audit work to the extent that they are relevant to the Audit Commission's 2012-13 VFM reporting guidelines.

As disclosed on the Council's Balance sheet, the Authority had £58m of short term borrowing at 31 March 2014. The Council's capital programme includes some significant projects over the next few years including the AGEAS Bowl hotel, a new leisure centre and a number of more minor developments. As a result, the Council's latest Treasury Management Strategy indicates its external debt will rise to £118m by 31 March 2017, of which £115m is expected to be short term. This level of debt will increase the Council's exposure to fluctuations in interest rates.

The Authority, at 31 March 2014, had a General Fund Reserve balance of £4 million. It forecasts that these reserves will reduce to the minimum prudent level of £1m over the next two financial years. Maintaining reserves at this level from this point will depend on the continued success of its contract negotiations and control of capital budgets; the accuracy of interest rate assumptions contained in the medium term financial projections; and the development and delivery of the Council's savings and efficiency programme.

While we concluded the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013, we expect our future audits to focus on the continuing robustness of the Council's arrangements for securing financial resilience.

2.3 Objections received

We received an objection to the 2012/13 accounts from a member of the public. The objection asked that:

- We apply to the court under section 17 Audit Commission Act 1998 for a declaration that the following constitute unlawful items of account:
 - Expenditure in respect of “Ageas Bowl Land and Stadium” £6.503m; and,
 - Expenditure in respect of “Ageas Bowl Development” £3.202m.
- We issue a public interest report in respect of the Council's actions and procedures relating to the above two items of account.

We issued our decision and statement of reasons on 15 September 2014. We concluded that we should not exercise our discretion to seek a declaration that the items of account above were unlawful and, because we found no significant failings in governance, we did not consider that a public interest report was appropriate.

We did however, make two recommendations as set out below under ‘control themes and observations’.

2.4 Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

2.5 Whole of government accounts

We sent our report to the National Audit Office on 29/09/14. We did not identify any areas of concern in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

2.6 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA/SOLACE guidance. We completed this work and did not identify any areas of concern.

2.7 Certification of grants claims and returns

We issued the Annual Certification Report for 2012/13 in December 2013.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicate to those charged with governance at the Authority, as required, significant deficiencies in internal control.

We concluded that:

- The Council did not have effective arrangements in place to track and follow-up and the agreed actions in the District Auditor's report on property transactions (September 2012); and
- The Audit and Resources Committee had not been presented with any information during the year to allow it to discharge its responsibilities for:
 - Overview the Council's risk management arrangements;
 - Providing independent assurance of the adequacy of the risk management framework.

We made the following recommendations in respect of the Council's governance arrangements in our decision and statement of reasons in respect of the decided objection. The Council should:

- Consider reviewing Standing Orders so that the use of specified exceptions in Contract Standing Order 45.10 are reported and justified; and,
- Improve financial reporting in respect of the Community Investment Programme to Cabinet.

4. Audit fees

A breakdown of our fee is shown below.

	Final fee 2012/13 £	Planned fee 2012/13 £	Scale fee 2012/13 £
Audit Scale Fee	67,200	67,200	67,200
Other Code work – Objection*	30,990	19,000	0
Total Audit Fee – Code work	98,190	86,200	67,200
Certification of claims and returns	17,900	17,900	17,900

*Fees for the auditor’s consideration of correspondence from the public, and formal objections, are charged in addition to the audit scale fee. Dealing with the objection proved more complex than was originally estimated and we have kept the Council informed of the likely final fee. The final fee is still subject to approval by the Audit Commission.

We undertook no non-audit work at the Council in 2012/13.

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