

# Crawley Borough Council

Audit results report for the year ended 31 March 2014

September 2014

Ernst & Young LLP



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19 September 2014

Dear Members

## **Audit results report**

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to Crawley Borough Council (the Authority's) financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion after the Audit and Governance Committee scheduled for 24 September 2014.

The audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and significant deficiencies in internal control.

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

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting scheduled on 24 September 2014.

Yours faithfully  
For and on behalf of Ernst & Young LLP

**Paul King**  
**Director**  
Ernst & Young LLP  
United Kingdom  
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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 accountable officer 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 Annual 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. Overview of the financial statement audit

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 the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their 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;
- ▶ 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.

We also report to the National Audit Office (NAO) under its group instructions.

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

### Financial statements

Following the performance of the procedures outlined in our Audit Plan, and subject to the completion of our audit procedures, we anticipate issuing an unqualified opinion on the Authority's financial statements. Our main findings in relation to the areas of risk/areas of audit emphasis included in our Audit Plan are set out below.

#### Significant risks:

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#### **Non-domestic rates (NDR) rateable value appeals provision: Audit findings and conclusions**

- ▶ We have assessed the work undertaken by the Council, including consideration of its use of experts. Both this, and our benchmarking procedures raised issues regarding whether the Council needed to include an estimate in the provision for appeals as not yet lodged.
- ▶ Although our work has gained reasonable assurance that the value of appeals not yet lodged is not material, given the omission we are raising this as an uncertainty for your attention.

#### **Co-operation agreement for the development of the North East Sector, Forge Wood: Audit findings and conclusions**

- ▶ We found that the Council had correctly accounted for the entries in the 2013/14 financial statements, subject to further discussions that we are having with management on the basis of the valuation of the land disposed of by the Council as at 31 March 2014.
- ▶ We will update the Audit and Governance Committee on the outcome of these discussions.

#### **Risk of Management Override: Audit findings and conclusions**

- ▶ As at the date of this report, we have not found any significant issues to report
- 

### Control themes and observations

Our audit identified the following control issues that we are bringing to your attention.

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**Current year issues:**

- ▶ Our walkthrough test to understand and evaluate your Purchase to Pay system identified a lack of supporting evidence to confirm the authorisation of an item ordered prior to processing. We therefore could not rely on this control in our audit work this year.

**Challenges for the coming year**

- ▶ The accounts payable system is undergoing process redesign. Changes of this nature often take time to embed.
  - ▶ DCLG has consulted on bringing forward the date of preparation of the financial statements. If agreed, this may be a significant challenge to the Council for which it will need to begin preparing as soon as it can.
- 

**Summary of audit differences**

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below.

- 
- ▶ There is an uncertainty for business rate appeals not yet lodged. The Council would be liable for 40% of the total amount, for which we have an indicative figure from the external expert engaged of some £1.1 million.
  - ▶ There are no other uncorrected misstatements or corrected misstatement that in our judgement we are required to bring to your attention.
- 

**Economy, efficiency and effectiveness**

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion.

**Whole of Government accounts**

We are yet to complete the work required to issue our 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. We currently have no issues to report.

**Audit certificate**

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year.

We hope to issue the audit certificate at the same time as the audit opinion, but this may be delayed for the completion of the Whole of Government Accounts work which is not due until 3 October 2014.

## 2. Scope update

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in June 2014 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.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan.

### 3. Significant findings from the financial statement audit

In this section of our report, we outlined the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk/areas of audit emphasis outlined in our Audit Plan. Our main findings in relation to the areas of risk/areas of audit emphasis included in our Audit Plan Our main findings in relation to the areas of risk/areas of audit emphasis included in our Audit Plan.

#### Significant risk 1: Non-domestic rates (NDR) rateable value appeals provision.

Description	Findings and conclusion
<p>The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of the business rates collected by councils will be retained locally and half paid over to central government.</p> <p>The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).</p> <p>Where local businesses believe the current value for business properties is wrong they can:</p> <ul style="list-style-type: none"> <li>• appeal to the VOA and ask them to correct details</li> <li>• appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal.</li> </ul> <p>Where rating appeals are successful, monies to settle appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. This includes both claims from 1 April 2013 and claims that relate to periods before the introduction of the scheme. As appeals are to the VOA, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.</p> <p>The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.</p>	<p>We documented and assessed the reasonableness of the Council's methodology in estimating the provision in respect of rateable value appeals at the balance sheet date. This included consideration of the expert employed by management to undertake this calculation on their behalf.</p> <p>We assessed that we were able to place reliance on the work conducted by management's expert. We identified that their calculations considered the appeals lodged to 31 March 2014, but excluded any assessment of the impact of claims that may be lodged after 31 March 2014.</p> <p>We undertook benchmarking of the Council's provision against comparator groups. In benchmarking against a group of similar total rateable value we identified the Council to be at the bottom of the range. This would indicate a possible understatement due to not including the impact of claims not yet lodged.</p> <p>Through enquiry of management, we have identified that there is an indication from an earlier iteration of the expert's work, that the impact of appeals not yet lodged may be some £1.1 million. No further work was undertaken in this area.</p> <p>We have considered the impact of Gatwick Airport as the largest single business within the borough. Management's view is that it is not possible to make any reliable assessment of the impact that this business may have on the NDR provision as they have not been provided with any information to enable an assessment to be made. We agree with management's view that a reliable estimate cannot be made under IAS 37.</p> <p>As Gatwick Airport makes up some 20 per cent of the total rateable value of businesses in the borough we concluded that we have reasonable assurance that not including an assessment for appeals not yet lodged in the NDR provision is unlikely to be material. However, it remains an uncorrected uncertainty that we bring to the Committee's attention.</p>



**Significant risk 2: Co-operation agreement for the development of the North East Sector, Forge Wood**

Description	Findings and conclusion
<p>In March 2014, the Council entered into a co-operation agreement with three partners, the Homes and Communities Agency, Taylor Wimpey UK Limited and Persimmon Homes, for the development of land known as the 'North East Sector'.</p> <p>Each partner currently owns a part of the land making up the 'North East Sector' which will be developed collaboratively for the provision of housing and supporting infrastructure. There are four phases to the development which will take place over the next twelve years and will provide the Council with 532 council houses. The new development will be called 'Forge Wood'.</p> <p>With significant transactions over the life of the development, this is a material and complex arrangement and we have identified this as a significant risk for our audit.</p>	<p>The Council provided us with a copy of the final agreement and their proposed accounting treatment.</p> <p>We reviewed the agreement, and the entries and disclosure in the financial statements to ensure that it is properly reflected and disclosed as appropriate.</p> <p>We found that the Council had correctly accounted for the entries in the 2013/14 financial statements, subject to further discussions that we are having with management on the basis of the valuation of the land disposed of by the Council.</p> <p>We will update the Audit and Governance Committee on the outcome of these discussions.</p>

**Significant risk 3: Risk of Management Override**

Description and conclusion	
<p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We:</p> <ul style="list-style-type: none"> <li>▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ reviewed accounting estimates for evidence of management bias; and</li> <li>▶ evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>We identified that journals are not reviewed when below £10,000. There is a theoretical risk of multiple journals just below this level to avoid review controls.</p> <p>We undertook analysis of the journal population to identify whether there was a prevalence of journals under £10,000 and we were able to confirm that this was not the case. We did identify an incidence of six consecutive journals raised by the same authoriser for the same amount of £9,780. We reviewed the reasons for this practice and received a reasonable response giving no indication of control avoidance or other form of override.</p> <p>At the date of this report we have not found any significant issues to report.</p>

**Other issues:**

Auditing standards require the communication of other issues that may come to the auditor's attention. We provide our observations in the table below. At the date of this report we have no observations to make. We will update the Audit and Governance Committee on our findings at its meeting on 24 September.

**Policy/practice/finding**

**EY comments**

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**External Confirmations:**

Our testing strategy to gain assurance over your investments was to seek direct assurance from the counterparty,

Two institutions did not respond to our audit request.

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We undertook alternate procedures on these investments, totalling £7m, which were originally invested in prior years.

## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We identified no areas that we classified as significant risks. The table below presents the findings of our work in response to other risk areas presented to you in our Audit Plan.

Other risks/areas of focus:	Impacts arrangements for securing:	Key findings:
<b>Council spending</b>		
<p>The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative spending of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<ul style="list-style-type: none"> <li>▶ We considered the Council's value for money and financial ratio profiles.</li> <li>▶ The Council's key financial ratios compare favourably with other authorities, including working capital ratios and the level of useable reserves as a proportion of expenditure. Both are higher than average.</li> <li>▶ The Council's ratio of long term borrowing to tax revenues is higher than other authorities, but this is a reflection of the long term borrowing taken on by the Council as part of the Housing Revenue Account self-funding arrangements.</li> <li>▶ The overall picture from the VFM Profiles is positive. The Council is a high spending council with high housing costs and high levels of homelessness. In terms of other service areas the Council's performance is positive.</li> </ul>
<b>Financial standing</b>		
<p>The Council continues to experience funding challenges, and the need to improve efficiency and make cost savings in future years to secure its medium and longer term</p>	<p>Financial resilience</p>	<ul style="list-style-type: none"> <li>▶ We reviewed the Council's 2014/15 budget and medium term financial plan and consider the reasonableness of the underlying assumptions.</li> <li>▶ In terms of service expenditure the Council has spent within its budget this year. Within acceptable ranges the</li> </ul>

financial position.

Council's financial performance was in line with expectations and where noted, favourable variances were due largely to windfall factors.

- ▶ The 2014/15 budget has been prepared on a prudent basis and sound assumptions; the 2014/15 budget is fully funded and has been risk assessed.
- ▶ Looking further ahead the medium term financial strategy shows a widening budget deficit resulting in a cumulative gap of £1.096 million by 2017/18 if no corrective action is taken. In the context of the Council's general fund balances and earmarked reserves this level of budget gap is manageable.

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**Co-operation agreement for the development of the North East Sector, Forge Wood**

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As noted above, in March 2014 the Council entered into a co-operation agreement with three partners, the Homes and Communities Agency, Taylor Wimpey UK Limited and Persimmon Homes, for the development of land known as the 'North East Sector'.

Economy, efficiency and effectiveness  
Financial resilience

- ▶ We reviewed the Council's arrangements for ensuring that the agreement provides value for money. Additionally, we reviewed the Council's financial planning to ensure that these reflect the commitments under the agreement. We also sought advice from our own property experts on the basis of valuation of the Council's land that formed part of the agreement.
- ▶ Based on a review of a sample of properties, the valuation methodology applied by the valuers is appropriate for assessing the market value of a development site.
- ▶ It is clear that one of the factors behind the Council making the agreement is to stimulate development of the NE Sector, which is planned to deliver a significant proportion of the Council's affordable housing requirements. This may have over-ridden obtaining the maximum market value from the agreement. House price and sales increases, or lower than anticipated development costs could mean that the Council could receive more than the full market value for its holding
- ▶ Discounting the proposed receipts for the time value of money and their uncertainty, the present value of the receipts is likely to be lower than the market value.

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**Housing Revenue Account**

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From our review of the budget out-turn we have identified an overspend

Financial resilience

- ▶ We reviewed the Council's arrangement for addressing the
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on the Housing Revenue Account (HRA) as a result of:

- ▶ increased expenditure on repairs due to the recent bad weather; and
- ▶ decreased income as a result of higher than anticipated right to buy sales of council properties.

overspend.

- ▶ Overall the 2013/14 out-turn results were more positive than anticipated easing the overall financial pressure on the HRA.
- ▶ The Council's financial forecasts suggest that the HRA will continue to generate a healthy surplus for re-investment over the timeframe of these financial plans.

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We have one other issue to report. The Council's risk management strategy is not transparent. Whilst it appears that it is operating in accordance with the approved strategy, the Audit and Governance Committee (the body charged with responsibility for risk management within the Council) do not receive reports on risk management and its operation. As a result it is difficult to see how the Committee are able to be assured that it is operating in practice.

The Council should consider how the Audit and Governance Committee, as the body with responsibility for risk management; gain assurance that risks are being adequately managed within the Council. At the minimum, they should receive regular reports on the Council's strategic risks and how these are being managed.

## 5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we are required to communicate to you significant deficiencies in internal control.

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

### 5.1 Current year observations

Description	Impact
Our walkthrough test to understand and evaluate your Purchase to Pay system identified a lack of supporting evidence to confirm the authorisation of the item ordered prior to processing.	Without clear authorisation according to the Council's processes, payments could be made for goods or services not received. The Council consider that there are other controls in place to mitigate any impact, including payments made by a purchaser would be signed off retrospectively by their managers.

### 5.2 Status of previous year's recommendations

There were no significant items raised in our prior year report.

### 5.3 Challenges for the coming year

Description	Impact
The accounts payable system is undergoing process redesign	Implementations of new systems often experience periods of varying length for all users to become familiar with. Post project implementation reviews focusing on authorisation controls and identifying duplicate payments should be considered for the new processes. Management could continue the duplicate payments work initiated in 2013/14, for the bedding down period of the new purchase ledger processes.
DCLG has consulted on bringing forward the date of preparation of the financial statements.	If agreed, earlier production of the statements may be a significant challenge that the Council will need to prepare for in advance, reviewing the key tasks and assessing the extent processes may need changing to reduce the production time.

## 6. Status of our work

### 6.1 Financial statement audit

Our audit work in respect of our opinion on the Authority's financial statements is ongoing at the date of this report. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Audit and Governance Committee on 24 September 2014.	Management and Audit and Governance Committee
Financial Statements	<ul style="list-style-type: none"> <li>▶ Completion of testing on the financial statements</li> <li>▶ Amendments to the financial statements arising from completion of testing on the financial statements</li> <li>▶ Approval of accounts by Audit and Governance Committee</li> <li>▶ Accounts re-certified by RFO</li> </ul>	Management, Audit and Governance Committee and EY

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Authority's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

### 6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Authority's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

### 6.3 Objections

We have received no objections to the 2013/14 accounts from members of the public.

## 7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000
<b>Total Audit Fee – Code work</b>	<b>86,184</b>	<b>86,184</b>	<b>86,184</b>
Certification of claims and returns	14,833*	14,833	14,833
Non-audit work	0	0	n/a

Our actual fee is in line with the agreed fee.

We undertook no non-audit work at the Council in 2013/14.

*\*Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance within the Annual Certification Report for 2013/14.*



## 8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual 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.

We report against values of £2.027 million (for corrected misstatements) or £135,200 (for uncorrected misstatements) relating to Crawley Borough Council in our summary of misstatements below.

We have no particular misstatements amended by management to bring to your attention.

In addition we highlight the following misstatements which were not corrected by management:

### Balance Sheet and Comprehensive Income and Expenditure Statement

	Assets current	Assets non- current	Liabilities current	Liabilities non- current	Income	Expenses
	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period	Debit/ (Credit) Current period
<b>Uncorrected misstatements</b>						
Factual misstatements:	0	0	0	0	0	0
Judgemental misstatements:						
▶ There is an uncertainty due to the lack of an amount in the NDR provision relating to appeals as yet unlodged. There is an indication only, from an early iteration of the managements' expert's work, this may be in the region of £1.1m. The Council's share would be 40% of this value.			(440,000)			440,000
Balance sheet totals			(440,000)			
Income effect of uncorrected misstatements						440,000

There are no other uncorrected misstatements that in our judgement we are required to bring to your attention.

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2014.

## 9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated June 2014. We complied with the Auditing Practice's Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and 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 that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 24 September 2014.

## Appendix A Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the Audit and Governance Committee. These are detailed here:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit results report
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Enquiry made by letter Audit and Governance Committee Chair, and response received 25 March 2014. No issues to report.
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	No issues to report
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of</li> </ul>	<p>No issues to report</p> <p>Enquiry made by letter Audit and Governance Committee Chair, and response received 25 March 2014.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan and update in section 9 of this report</p>
<p><b>Going concern</b></p> <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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>No issues to report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit results report</p>
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	<p>Audit Plan and Audit results report</p>

# **Appendix B**

**The Letter of Representation is  
attached**



## Finance Division

Contact:	<b>Karen Hayes</b>	Your Ref:	
Direct Line:	<b>01293 438263</b>	Our Ref:	
Fax:	<b>01293 511803</b>	Email:	<b>karen.hayes@crawley.gov.uk</b>
DX:	<b>57139 Crawley 1</b>	Date:	<b>24 September 2014</b>

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Paul King  
Ernst & Young  
Apex Plaza  
Forbury Road  
Reading  
RG1 1YE

This representation letter is provided in connection with your audit of the financial statements of Crawley Borough Council ("the Council") for the year ended 31 March 2014. 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 Crawley Borough Council as of 31 March 2014 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

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

### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
2. We acknowledge, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

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Main fax: 01293 511803  
Minicom: 01293 405202  
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[www.crawley.gov.uk](http://www.crawley.gov.uk)

Town Hall  
The Boulevard  
Crawley  
West Sussex  
RH10 1UZ

4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of the 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. We have not corrected these differences identified by and brought to the attention from the auditor because their nature means that the difference is inherently uncertain.

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

#### **C. Compliance with Laws and Regulations**

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

#### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and 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, being the Cabinet on 10 September 2014.

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

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 38 to the financial statements all guarantees that we have given to third parties.

#### **F. Subsequent Events**

1. 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.

#### **G. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

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<sup>1</sup> ISA 501.12



## **H Retirement benefits**

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

## **I Segmental reporting**

1. I have reviewed the operating segments reported internally to the Authority and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:
  - The nature of the services
  - The nature of the processes
  - The type or class of customer for the services

## **J Use of the Work of an Expert**

1. We agree with the findings of the experts engaged to evaluate the provision for NDR appeals and valuations of property, plant and equipment and investment properties and have adequately considered the qualifications of the experts 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 experts 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 experts.

*Yours Faithfully*

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Deputy Head of Finance

I confirm that this letter has been discussed and agreed at the Audit and Governance Committee on 24 September 2014

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Chairman of Audit and Governance Committee

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