

Crawley Borough Council

Audit results report for the year ended 31 March 2015

September 2015

Ernst & Young LLP



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Private and confidential

Members of the Audit Committee
Crawley Borough Council
Town Hall
The Boulevard
Crawley
West Sussex
RH10 1UZ

10 September 2015

Dear Members

Audit results report

We are pleased to attach our audit results report for the Audit Committee. This report summarises our preliminary audit conclusion in relation to the Authority's financial position and results of operations for the year ended 31 March 2015.

The audit is designed to express an opinion on the 2014/15 financial statements, to reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and to address current statutory and regulatory requirements. This report contains our findings on the areas of audit emphasis, our views on the Authority's accounting policies and judgments, and any significant deficiencies in internal control.

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

We welcome the opportunity to discuss the contents of the report with you at the forthcoming Audit Committee meeting.

Yours faithfully
For and on behalf of Ernst & Young LLP



Paul King
Ernst & Young LLP
United Kingdom
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's '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](#). This document 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

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In this statement the Authority reports publicly 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 any planned changes in the coming period.

The Authority is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ expressing an opinion on:
 - ▶ the 2014/15 financial statements;
 - ▶ the consistency of other information published with the financial statements, including the explanatory foreword, with the financial statements.
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Authority's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings on the areas of audit emphasis and any significant deficiencies in internal control or views on the Authority's accounting policies and judgements.

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

Financial statements

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.

Our main audit findings are set out below.

Significant risks:

Risk of management override: Audit findings and conclusions

- ▶ detailed testing of journal transactions found no evidence of override;
 - ▶ detailed testing of 'unusual' journal transactions i.e. those prepared by senior management, found no evidence of override;
 - ▶ transactions around year end were subject to extended audit testing and no evidence of control override was found; and
 - ▶ we tested the basis and calculations of the accounting estimates in the financial statements (for example provisions, PPE valuations) and found no evidence of control override.
-

Non significant financial statement risks:

Gatwick business rates: Audit findings and conclusions

- ▶ the business rates for Gatwick were not subject to revaluation during 2014/15 and therefore, this risk did not materialise.
-

Summary of audit differences

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

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- ▶ Management has corrected misstatements amounting to £3.02 million. These adjustments have not had an impact on useable reserves. Some smaller adjustments to the statements were also made by management but these are, in aggregate, below the reporting threshold set out in our audit plan.
-

Economy, efficiency and effectiveness

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified value for money conclusion.

Whole of Government Accounts

We have performed the below-threshold procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes. We have no issues to report.

Other reporting

We have no other matters 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 expect to issue the audit certificate at the same time as the audit opinion.

2. Scope update

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan issued on 24 June 2015, 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. Our Audit Plan provided you with an overview of our audit scope and approach for:

- ▶ expressing an opinion on:
 - ▶ the 2014/15 financial statements;
 - ▶ the consistency of other information published with the financial statements, including the explanatory foreword, with the financial statements
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Authority's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

We carried out our work in accordance with our Audit Plan with no following amendments.

3. Significant findings from the financial statement audit

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

Significant risk: Risk of management override

Description: 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.

Our approach focused on:

- ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ testing journals raised around the year end for any indication of manual override of controls;
- ▶ reviewing accounting estimates for evidence of management bias; and
- ▶ evaluating the business rationale for significant unusual transactions.

Conclusion: From the procedures carried out above we found no evidence of management override of internal controls.

Other financial statement risk: Gatwick business rates

Description: The business rates from Gatwick constitute around 25% of total business rates income for the Council. If, as expected, there is a revision to the valuation of Gatwick, there is potential for material differences to the income received in comparison to the prior year. This could impact on the council's ability to achieve its approved budget for the year 2014/15.

Our approach will focus on:

- ▶ review of the year end budget achievement and any mitigating transactions; and
- ▶ review of any appeal and its impact on the financial statements.

Conclusion: There was no revision to the valuation of Gatwick during 2014/15. Therefore, this risk did not materialise and there was no effect on the financial statements.

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to report on:

- ▶ 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 we are seeking;
- ▶ expected modifications to the audit report;
- ▶ other matters if any, significant to the oversight of the financial reporting process;
- ▶ related parties;

- ▶ external confirmations;
- ▶ going concern; and
- ▶ consideration of laws and regulations.

We have not issues to report on any of the issues above.

4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Crawley Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining corporate performance management and financial management arrangements we consider the following criteria 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 operating 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 or improving efficiency and productivity.

We identified no significant risks during our audit planning and have nothing to report in this regard. No additional risks have been identified in the intervening period.

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We have no issues to bring to the Audit Committee's attention from our completed work.

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 control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

We found no significant control issues that we would need to report to you.

5.2 Status of previous year's recommendations

There were no explicit recommendations within our 2013/14 audit results report. However, there was one challenge reported regarding a lack of supporting evidence in the authorisation of payable transactions. Our audit testing of payables transactions in 2014/15 has found no issues with authorisation evidence.

5.3 Challenges for the coming year

Description	Impact
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.
CIPFA is currently consulting on fundamental changes to the Code of Practice on Local Authority Accounting in the UK as a result of the planned change in measurement requirements for transport infrastructure assets from 2016/17. The change will require the highways network asset, including roads, bridges, footpaths, cycleways, street furniture and street lighting to be valued in accordance with the Code of Practice on Transport Infrastructure Assets.	This change will result in significant extra work on asset valuation and will materially affect the Council's financial statements.

6. Status of our work

6.1 Financial statement audit

Our audit work for our opinion on the Authority's financial statements is substantially complete. The following items were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Audit Committee on 24 September 2015.	Management and Audit Committee

On the basis of our audit work to date, we anticipate issuing unqualified auditor's report on 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 on 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 2014/15 accounts from members of the public.

7. Fees update

A breakdown of our fee is shown below.

	Proposed final fee 2014/15 £'000	Planned fee 2014/15 £'000	Scale fee 2014/15 £'000	Explanation of variance
Total Audit Fee – Code work	87,084	87,084	87,084	
Certification of claims and returns	12,630*	12,630*	12,630*	

Our actual fee is in line with the agreed fee.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee. However, we have received no public objections.

**Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in December 2015 within the Annual Certification Report for 2014/15.*

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 which are uncertain or open to interpretation.

We determined planning materiality to be £4.496 million, which is 2% of gross expenditure reported in the accounts of £124.8 million. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We set our tolerable error for the audit at 75% of planning materiality. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We set the level of tolerable error at this figure as a result of the lack of errors in previous years and general low level of audit adjustments.

We agreed with the Audit Committee that we would report to the Committee all corrected audit differences in excess of £1.872 million and all uncorrected audit differences over 125k, and these are included in our summary of misstatements below.

8.1 Uncorrected misstatements

There are no uncorrected misstatements.

8.2 Corrected misstatements

We highlight in particular the following misstatements identified during the course of our audit and which have been corrected by management;

- Note 35 Operating leases - errors in calculations resulted in understatement of £2.534 million in Minimum Lease Payment (MLP) and overstatement of £486,000 in Contingent Rents. This was a misclassification in the note presentation and has no effect on the Comprehensive Income and Expenditure Statement.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 24 June 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Standing Guidance: 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. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Audit Committee on 24 September 2015.

Appendix A Required communications with the Audit Committee

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

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
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 ▶ Any significant difficulties encountered during the audit ▶ Any significant matters, arising from the audit that were discussed with management ▶ Written representations we are seeking ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process 	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 ▶ In writing, corrected misstatements that are significant 	Audit results report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud we have identified or information we have obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud 	Letter of representation and management, internal audit and those charged with governance direct fraud representations
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <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 entity 	Audit results report
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 	Audit results report

Required communication	Reference
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ 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 ▶ Enquiry of the Audit 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 Committee may be aware of 	Audit results report
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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 	Audit Plan and update in section 8 of this report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report and representation letters
Significant deficiencies in internal controls identified during the audit	Audit results report [although n/a]
Fee reporting <ul style="list-style-type: none"> ▶ 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). 	Audit Plan and Audit results report
Summary of certification work undertaken <ul style="list-style-type: none"> ▶ Annual report to those charged with governance summarising the certification work undertaken 	Annual Certification Report – to be issued January 2016.

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