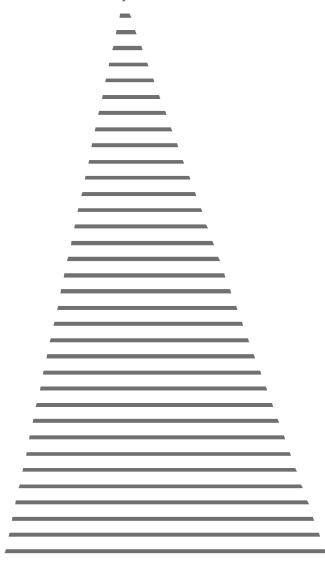


Crawley Borough Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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Contents

Executive Summary	2
Purpose.....	6
Responsibilities.....	8
Financial Statement Audit.....	11
Value for Money	14
Other Reporting Issues.....	16
Focused on your future	19

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The 'Terms of Appointment from 1 April 2015' 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 Annual Audit Letter 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.

Executive Summary



Executive Summary

We are required to issue an annual audit letter to Crawley Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
► Financial statements	
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.
Area of Work	Conclusion
Reports by exception:	The Governance Statement was consistent with our understanding of the Council.
► Consistency of Governance Statement	
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack. This fact was reported to the NAO in accordance with their group instructions.
As a result of the above we have also:	
Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 29 July 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 29 July 2016.
In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the housing benefits claim.	
We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work, and particularly for ensuring that the working papers were well prepared and available in advance of the planned early sign-off.	



Paul King

Executive Director
For and on behalf of Ernst & Young LLP

Purpose

Work

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 26 July 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 9 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
 - On the 2015/16 financial statements; and
 - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
 - If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - Any significant matters that are in the public interest;
 - Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return. We reported this fact to the NAO as required by their group instructions.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

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

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 July 2016.

Our detailed findings were reported to the 26 July 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion	
Management override of controls	<p>We:</p> <ul style="list-style-type: none">• tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;• reviewed accounting estimates for evidence of management bias; and• evaluated the business rationale for any significant unusual transactions.	
Other risks	<p>We carried out our tests as planned and this work found no evidence of management override in the 2015/16 financial statements.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none">• Gaining an understanding and assessing the reasonableness of the council's methodology in estimating any planned provision in respect of rateable value appeals outstanding at the balance sheet date;• Considering both the completeness and accuracy of the data on the number

of appeal is inherent to all business rate collectors, it is particularly so where the business rate base contains individually large businesses, which for the Council includes Gatwick Airport.

The Council is confident that its provision for 2015/16 covers all anticipated appeals, but the inherent risk remains.

of appeals outstanding and the basis for the assumption made by the Council on the likelihood of success; and

- Reviewing and relying on the work of any experts appointed by management to assist in this process.

Our work found that the Council's provision was sufficient and that there had been no significant new appeals during the year.



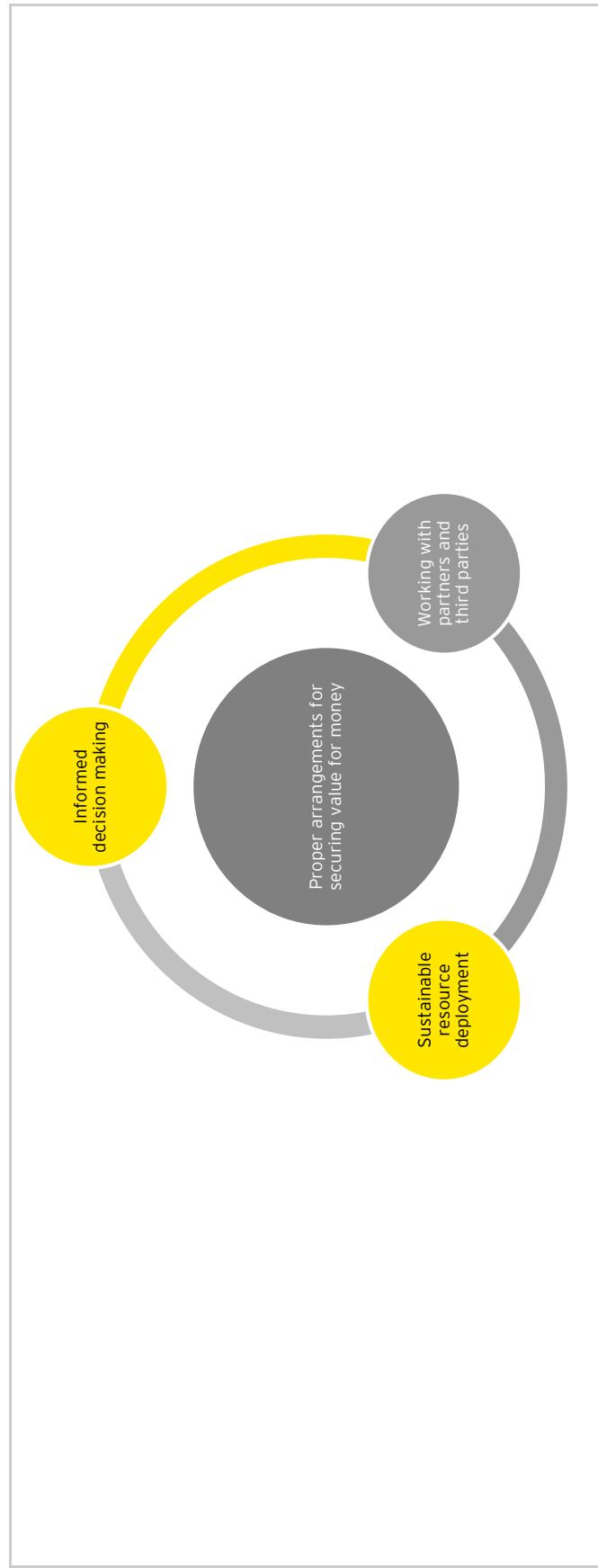
Value for Money

Value for Money

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.

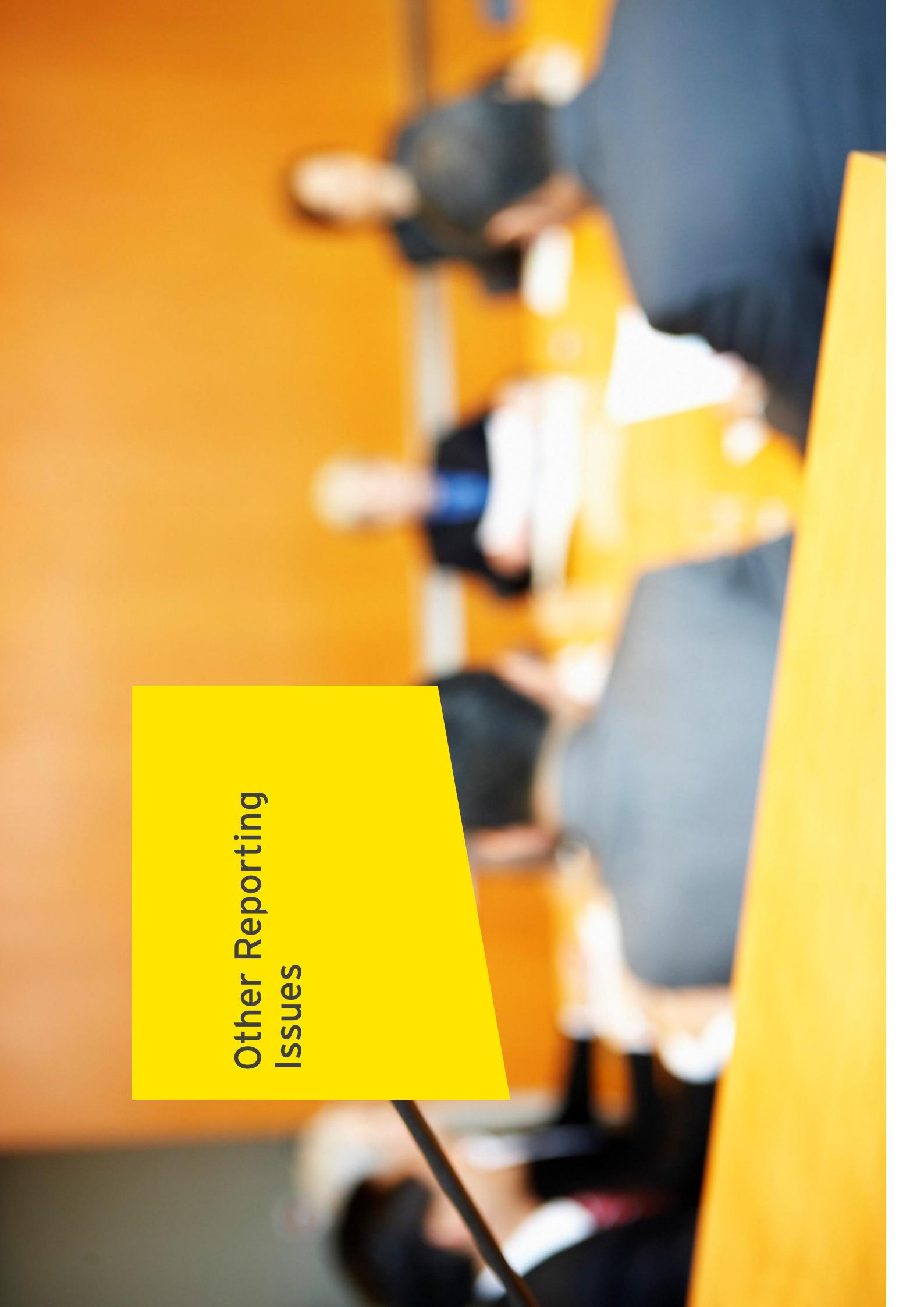
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 29 July 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack. We reported this fact to the NAO as required by their group instructions.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from members of the public.

Other Powers and Duties

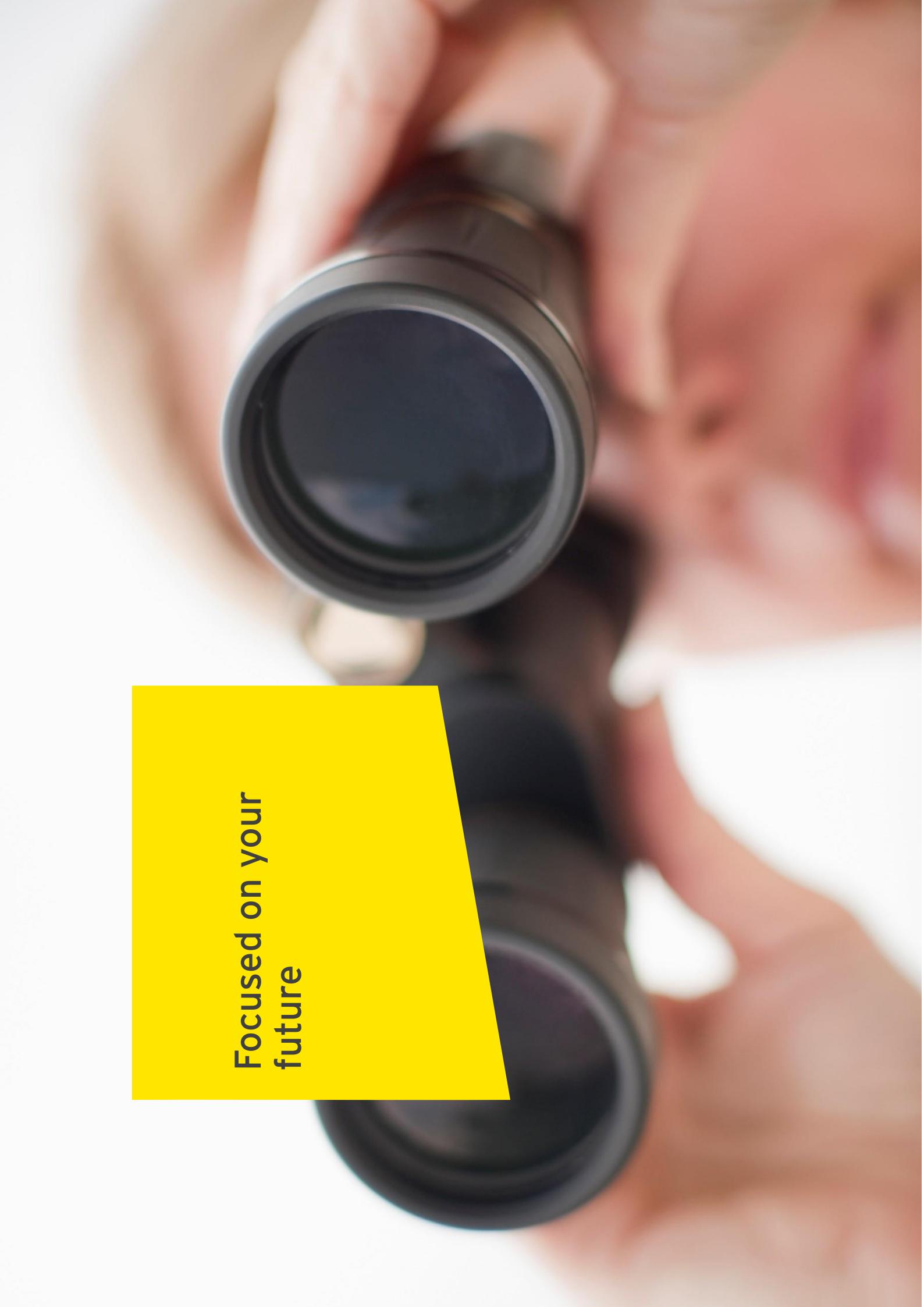
We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26 July 2016. 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 regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

A close-up photograph of a person's hands holding a telescope eyepiece. The hands are positioned around the middle of the eyepiece, with fingers gripping the sides. The eyepiece itself is dark grey or black with a metallic ring near the front lens. The background is blurred, suggesting an outdoor setting like a park or a clearing.

Focused on your
future

Focused on your future

Area	Issue	Impact
Local appointment of auditors	<p>The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.</p> <p>Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.</p> <p>Existing external audit arrangements will remain unchanged for the 2016/17 and 2017/18 years.</p>	<p>Audit panels and procurement arrangements need to be in place by early 2017.</p> <p>Having received the audit opinion on 29 July 2016, the Council is clearly in a strong position in respect of the earlier audit deadline. A similar performance in 2016/17 will show that the arrangements to do so have become embedded in the Council's processes. Continued strong performance in this area will fully mitigate the risk as we move towards 2017/18.</p>
Accelerated shutdown	<p>On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made (signed by the Minister) under the Local Audit and Accountability Act 2014 on 12 February 2015.</p> <p>A key area of the regulations is that from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We will continue to organise regular meetings with the finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the committee with regular updates on our progress in this area. We are also happy</p>	

Area	Issue	Impact
Balancing budgets in the medium term	<p>to discuss the wider process with you in more detail when we next meet.</p> <p>The council's budget Strategy for the years 2016/17 to 2020/21 was approved by Full Council in October 2015. This identified a mitigated budget gap for the year 2016/17 but a further unmitigated gap of £1.5m for the year 2017/18. These gaps will have to be bridged from reserves unless other efficiencies can be identified.</p> <p>The transformation programme of service improvements and efficiencies achieved through systems thinking and other types of review will continue with the aim of continual streamlining of internal processes to reduce waste and duplication, and also to focus on the defined purpose and measures of each service. However, local government financing is becoming increasingly unpredictable and unfunded policies such as the four year 1% housing rents reduction add unexpected pressures to already tight financial positions. This means that the assumptions underlying the medium term financial strategies are not certain and liable to change i.e. annual uncertainty over continuance of the New Homes Bonus payments.</p>	<p>The impact of funding reductions and uncertainty is clear in terms of the provision of services, and the council needs to continually strive for efficiencies and new funding streams, such as increasing its income generation strategies.</p>
Ongoing impact of 'Brexit'	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. Any impact on the council's valuations if confidence in the wider UK property market falls is likely to affect the financial statements. Also, the valuation of council's defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>The long term impact of 'Brexit' is uncertain but lower income from investments obviously puts pressure on the budgets of the council, and means savings have to be identified from services and wider efficiencies.</p>

