



Private and Confidential 16 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Crawley Borough Council (the Council) for 2017/18.

We have substantially completed our audit of the Council for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 25 July 2018.

Yours faithfully

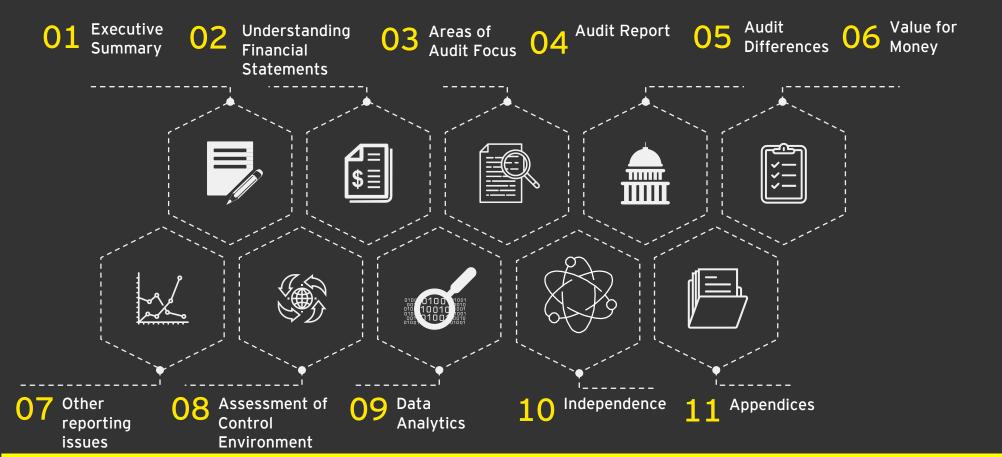
Paul KIng

Associate Partner

For and on behalf of Ernst & Young LLP

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# **Contents**



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Crawley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Crawley Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Crawley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





### Scope update

In our audit planning report tabled at the 6 March 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.7m. This level of materiality remains appropriate for the actual results for the financial year. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. The draft year end accounts threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, movement in reserves statement, balance sheet, cash flow statement, housing revenue account and collection fund) is £138,224 (Audit Committee Planning Report: £133,164).

### Status of the audit

We have substantially completed our audit of Crawley Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- > Testing the correctness of figures to support the Expenditure and Funding Analysis;
- > Receipt and review of revised draft accounts incorporating all changes to disclosure suggested during the course of our audit;
- > Completion of procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission;
- > Manager and Associate Partner review of audit working papers;
- > Completion of subsequent events review; and
- > Receipt of the signed management representation letter

We expect to issue the audit certificate at the same time as the audit opinion.



### Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that the rationale as to why it is not corrected be approved by the Audit Committee and included in the Letter of Representation.

The aggregated impact of the unadjusted audit difference is £2,185,576. We agree with management's assessment that the impact is not material. Details can be found in Section 5 Audit Differences.

There were no audit differences adjusted by management identified from our work.

# Executive Summary

### Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Crawley Borough Council's financial statements. We summarise our consideration of these matters in the "Key Audit Issues" section of this report:

- Misstatements due to fraud or error (management override)
- Valuation of Property, Plant and Equipment and Investment Properties
- ► Pension Liability Valuation
- NNDR Appeals Provision
- ► Earlier deadline for the production of the financial statements.

There were no new matters identified by us since the Audit Planning Report and there are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

We ask you to review the areas of audit focus and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issues
- ► There are no other significant issues to be considered.



### **Control observations**

We have adopted a fully substantive approach, so have not tested the operation of controls.

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified no significant value for money risks.

However, we did note in our Audit Planning Report that the Council was considering plans that could involve the demolition of the existing Town Hall and the construction of a new Town Hall, affordable housing and a heat distribution network. We noted that the plans were insufficiently advanced to constitute a significant Value for Money risk, but that we would monitor progress throughout the audit and as part of our audit planning for 2018/19.

We have reviewed progress on the project and note that the Council has been granted planning permission to proceed with the project but has not yet signed contracts with the delivery partner. Although significant work on the project had still not yet started, we have reviewed financial modelling, and we note that the Council is expecting to use all capital reserves by 2021/22 and thereafter plans to borrow to fund capital projects. Clear financial management arrangements will be required and we will continue to monitor progress in future years.

We have no other matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



### Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

### Independence

Please refer to Section 10 for our update on Independence.





## Understanding the Financial Statements

The Council's net assets increased by £32.7m over the course of 2017/18. Two of the key drivers behind this were an increase in the value of Property, Plant and Equipment (£18m increase ) and decrease in the net Pension Liability. (£8.6m fall).

We note that the net cost of services increased by £5.1m over the same period. The Housing Revenue Account rents have reduced by 1% and housing stock has reduced due to Right to Buys. Other drivers include revaluation losses.

Property, Plant and Equipment

31 March 2017: £774,985,000

31 March 2018: £793,060,000

Pension Liabilities

31 March 2017: £11,823,000

31 March 2018: £3,223,000

Net Receipts from Housing Revenue Account:

2016/17: £18,058,000

2017/18: £16,152,000





# Significant risk

Misstatements due to fraud or error (management override)

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

### What judgements are we focused on?

As part of our work we focused on the key judgemental areas of financial statements, such as accounting policies; unusual transactions; and the key accounting estimates around valuation of Land and Buildings, net Pension Liabilities and the NNDR Appeals Provision (considered in more detail on pages 13 - 15 of this report).

### What did we do?

- Inquired of management and those charged with governance about risks of fraud; controls put in place to address those risks; and the oversight given by those charged with governance of management's processes over fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Substantively tested balances that are typically at a higher risk of override such as short term accruals and prepayments.
- Reviewed the accounting policies and key accounting estimates (Land and Buildings, Pension Liability and NNDR Appeals provision) for evidence of management bias.
- Evaluated the business rationale for significant unusual transactions.

### What are our conclusions?

Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation





### Other areas of inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Valuation of Property, Plant and Equipment and Investment Properties

### What is the risk? (Audit Planning Report)

Property, Plant and Equipment was valued at £775m at 31 March 2017 and Investment Properties were valued at £21m as at that date. These represent significant balances in Crawley Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Detailed valuation work is undertaken by the Council's valuers Wilks, Head and Eve.

Investment Properties and high value items of Land and Buildings are valued at the reporting date. For Council Dwellings and the remaining Other Land and Buildings, Wilks, Head and Eve undertake detailed revaluation work at the end of December and the Council applies an uplift adjustment to reflect estimated valuation movements in the last three months of the year. We note that in 2016/17, Housing Stock was estimated to have increased in value by £5,708,000 in the last three months of the year and Other Land and Buildings were estimated to have increased in value by £452,000 in that period. Adjustments to reflect those changes in value had not been included within the first draft account presented for audit, although this was corrected during the audit process.

#### What did we do?

Property, Plant and Equipment was valued at £793m at 31 March 2018 and Investment Properties were valued at £21m as at that date. Our testing included procedures to:

- Consider the work performed by the Council's valuers Wilks, Head and Eve, including the scope of the work performed on valuations at 31 December 2017; sample testing on data supporting the valuations; a comparison of valuation findings with market trends and Land Registry data; and review of valuer assumptions, qualifications and expertise.
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties.
- Review any assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- Consider changes to useful economic lives as a result of the most recent valuation.
- Test accounting entries have been correctly processed in the financial statements.
- Confirm an appropriate uplift had been applied for Council Dwellings and Other Land and Buildings to reflect fluctuations in value in the last three months of the year.

From our testing we were satisfied that Property, Plant and Equipment and Investment Property values in the year end accounts presented for audit are true and fair.



# Other areas of inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### **Pension Liability Valuation**

### What is the risk? (Audit Planning Report)

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

Crawley Borough Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £11.8m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to West Sussex County Council. Accounting for this scheme involves significant estimation and judgement and this is why management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### What did we do?

Crawley Borough Council's pension fund deficit had reduced to £3.2m at 31 March 2018. Our testing included procedures to:

- Liaise with the auditors of West Sussex County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Crawley Borough Council.
- Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used.
- Review and test the accounting entries and disclosures made within Crawley Borough Council's financial statements in relation to IAS19.

From our testing we were satisfied that the fall in the value of the deficit was largely driven by an increase in the value of the Council's share of the West Sussex Pension Fund's assets. As part of our IAS 19 Pension testing, we compare the net fund assets estimated by the actuary at the year end to the actual net fund assets of the pension fund. The actuary estimated this as being £4,025,000,000 but the actual net fund assets of the pension fund are £4,058,415,000, giving a £33,415,000 variance. The IAS 19 pension figures included within the financial statements are based upon actuary reports which use the estimated figure rather than the actual year end balance. While this approach is not unusual, given that this variance is significant, we calculated Crawley Borough Council's share of the net fund asset difference as being £2.185m. This difference is recorded as an unadjusted difference in Section 5 of this report and we agree with management's assessment that the impact is not material.



## Other areas of inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### NNDR Appeals Provision

### What is the risk? (Audit Planning Report)

Crawley Borough Council's NNDR Appeal Provision was valued at £2.15m at 31 March 2017. The Valuations Office Agency (VOA) published new rateable values on 1 April 2017 and appeals against those values are expected.

### What did we do?

Crawley Borough Council's NNDR Appeal Provision had increased to £2.65m at 31 March 2018.

We tested the Council's calculations supporting the year end provision in detail - confirming that correct data from the Valuations Office Agency (VOA) had been used and that the RV % loss rate used was that recommended by the VOA.



### Other areas of inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### Earlier deadline for the production of the financial statements

#### What is the risk? (Audit Planning Report)

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council could include complex areas of accounting being time-pressured; slippage in delivering data for analytics work in format and to time required; and managing a new timetable for internal quality assurance arrangements.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- · good quality draft financial statements and supporting working papers by the agreed deadline;
- · appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

#### What did we do?

We worked with the Council to address these challenges by:

- Carrying out more of our audit work at the interim stage of our audit, for example testing nine months of income and expenditure transactions
- Agreeing a streamlined presentation of audit working papers. We appreciate the Council's staff for the way that audit working papers were batched and organised for the audit team, making it easier to spend time on gueries and areas of judgement rather than routine data extraction.





### **Audit Report**

# Draft audit report

### Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CRAWLEY BOROUGH COUNCIL

#### Opinion

We have audited the financial statements of Crawley Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

Comprehensive Income and Expenditure Statement,

Movement in Reserves Statement,

Balance Sheet,

Cash Flow Statement,

The related notes 1 to 42,

Housing Revenue Account Income and Expenditure Account, the Movement on the HRA Statement, and related notes 1 to 8, and

Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

give a true and fair view of the financial position of Crawley Borough Council as at 31 March 2018 and of its expenditure and income for the year then ended; and

have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGNO1, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Head of Finance, Revenues and Benefits' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Head of Finance, Revenues and Benefits has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the narrative statement set out on pages 2 to 8, other than the financial statements and our auditor's report thereon. The Head of Finance, Revenues and Benefits is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



### **Audit Report**

### Our opinion on the financial statements

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Crawley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council:

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014:

we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or

we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

#### Responsibility of the Head of Finance, Revenues and Benefits

As explained more fully in the Statement of the Head of Finance, Revenues and Benefits' responsibilities set out on page 9, the Head of Finance, Revenues and Benefits is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Finance, Revenues and Benefits is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <a href="https://www.frc.org.uk/auditorsresponsibilities">https://www.frc.org.uk/auditorsresponsibilities</a>. This description forms part of our auditor's report.



### **Audit Report**

### Our opinion on the financial statements

# Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2017, as to whether the Crawley Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Crawley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Crawley Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Certificate

We certify that we have completed the audit of the accounts of Crawley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Crawley Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul King (Associate Partner) Ernst & Young LLP (Local Auditor) Southampton 26 July 2018

The maintenance and integrity of the **Crawley Borough Council** web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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### Audit Differences

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

### Summary of adjusted differences

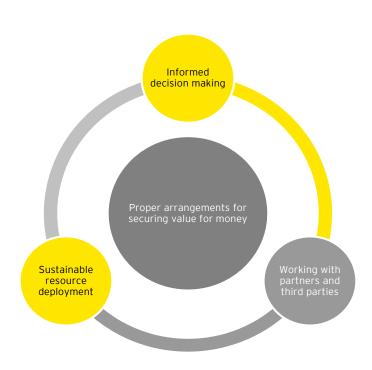
We have not identified any adjusted differences in the financial statements.

### Summary of unadjusted differences

We identified one unadjusted difference relating to the Council's share of the difference between the actuary's estimate of the Pension Fund asset value and the actual Fund value at 31 March 2018. We estimated this to be £2,185,576.



# ₹ Value for Money



### **Background**

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



### Value for Money

### **Overall conclusion**

We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified no significant risks.

However, we did note at planning stage that the Council was considering plans that could involve the demolition of the existing Town Hall and the construction of a new Town Hall, affordable housing and a heat distribution network. We noted that the plans were insufficiently advanced to constitute a significant Value for Money risk, but that we would monitor their progress throughout the audit and as part of our audit planning for 2018/19.

We have reviewed progress on the project and note that the Council has been granted planning permission to proceed with the project but has not yet signed contracts with the delivery partner. Although significant work on the project had still not yet started, we have reviewed financial modelling, and we note that the Council is expecting to use all capital reserves by 2021/22 and thereafter plans to borrow to fund capital projects. Clear financial management arrangements will be required and we will continue to monitor progress in future years.

We have no other matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



# Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

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

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report

### **Whole of Government Accounts**

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have no issues to raise.

# **Other reporting issues**

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- · Going concern; and
- · Consideration of laws and regulations.





# **Assessment of Control Environment**

### Financial controls

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client. Unless the audit team has used the 'Management Letter template' to communicate significant deficiencies, it is mandatory to use this section if there are any.

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.





## Use of Data Analytics in the Audit

### **Analytics Driven Audit**

### **Data analytics**

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ► Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

### **Journal Entry Analysis**

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

### Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.







# Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 6 March 2018.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 25 July 2018.

We confirm we have not undertaken non-audit work outside the PSAA grant claim certification requirements in relation to our work Crawley Borough Council.

### Independence



# Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

## Independence

# Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018. We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	65,313	65,313	65,313	65,313
Non-audit work (Housing Benefit)	TBC	11,386	11,801	11,801
Total non-audit services	ТВС	11,836	11,801	11,801





# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul> <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



		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<ul> <li>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</li> <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>	No conditions or events were identified, either individually or together to raise any doubt about Crawley Borough Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul> <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>Material misstatements corrected by management</li> </ul>	Audit results report
Subsequent events	► Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	No subsequent events have been identified that would impact either individually or together on Crawley Borough Council's financial statements as at 31 March 2018
Fraud	<ul> <li>Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:         <ul> <li>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit results report



		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:  Non-disclosure by management  Inappropriate authorisation and approval of transactions  Disagreement over disclosures  Non-compliance with laws and regulations  Difficulty in identifying the party that ultimately controls the Authority	Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.  Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:  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  Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report and Audit results report



		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>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</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances of noncompliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	► Significant deficiencies in internal controls identified during the audit.	Audit results report - notes that none were identified



		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	► Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	► Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	<ul> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report and Audit results report
Certification work	► Summary of certification work	Certification Report



### Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead] [Date]

To:
Paul King
Director
Ernst & Young LLP
Apex Plaza,
Forbury Road
Reading RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of Crawley Borough Council ("the Council") for the year ended 31 March 2018. 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 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

#### A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements. As members of management of the Council, 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 2017/18, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of the unadjusted audit difference, shown in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial, to the financial statements. We have not corrected this difference identified by and brought to the attention of management by the auditor because it is immaterial and affects a number of places in the financial statements.



# Management representation letter

### **Management Rep Letter**

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

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

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected noncompliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

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

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

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

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

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

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

We have made available to you all minutes and agendas of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: 25 July 2018.

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.

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

We have disclosed to you, and the Council 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.



# Management representation letter

### **Management Rep Letter**

#### D. Liabilities and Contingencies

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

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

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the

financial statements all guarantees that we have given to third parties.

#### E. Subsequent Events

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

#### F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.

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

#### H. Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.

We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

#### I. Retirement benefits

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

Signed on behalf of Crawley Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 25 July 2018

Signed:

Karen Hayes (Head of Finance, Revenues and Benefits)

Date: 25 July 2018

Cllr K Sudan (Chair of the Audit Committee)

Date: 25 July 2018



### Appendix B

# Management representation letter

### Schedule of unadjusted differences

	DR	CR
	£	£
Other Long Term Liabilities	2,185,576	
Unusable Reserves		2,185,576
Being the difference between the value of Crawley Borough	Council's share of West Sussex Pens	ion Fund's assets as estimated

Being the difference between the value of Crawley Borough Council's share of West Sussex Pension Fund's assets as estimated by the actuary and as estimated by the auditor of the pension fund.

### EY | Assurance | Tax | Transactions | Advisory

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#### ED None

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