

Local Government Boundary Commission for England

**Audit completion report  
(including management letter)  
on the 2016-17 financial  
statement audit**

REPORT TO THOSE CHARGED WITH GOVERNANCE  
JUNE 2017

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*We have prepared this report for the Commission's sole use. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.*

**Introduction**

This report summarises the key matters from our audit of the 2016-17 Local Government Boundary Commission for England financial statements which we must report to the Audit and Risk Committee, as those charged with governance, before we finalise our audit work and certify the accounts. We would like to thank the Director of Finance and her staff for their assistance during the audit process.

**Proposed audit opinion**

We anticipate recommending to the Comptroller and Auditor General (C&AG) that he should certify the 2016-17 financial statements with an unqualified audit opinion, without modification. The draft audit certificate is presented in Appendix 2 – Audit Certificate.

**Audit adjustments**

The net effect of these adjustments on the statement of comprehensive net expenditure and statement of financial position was nil (reclassification adjustments only). Unadjusted errors would decrease net expenditure and increase net assets by £21k. We have included a full list of audit adjustments on page 8.

**Key audit risks**

We review risks to the financial statements on an ongoing basis. Our detailed findings are included on pages 5-6 this report.

**Other Key Matters**

During our audit, we also considered the impacts of the expiration of the payroll contract, and reviewed the outturn against budget. Our detailed findings are included on page 7 of this report.

**Internal Control**

Our key internal control observations and recommendations are detailed on page 13 of this report.

**Accounts production and audit process**

The Commission has robust processes in place for the production of the accounts and have produced good quality supporting working papers. Staff dealt efficiently with audit queries, effectively prioritising them, and the audit process has been completed within the planned timescales.

**Completion**

At the date of this report our audit of the financial statements is substantially complete subject to completion areas detailed on page 4.

**Actions for the Audit and Risk Committee**

The Audit and Risk Committee is invited to:

- Review the findings set out in this report, including the draft letters of representation and audit certificates at Appendix 1 and 2 respectively; and
- Consider whether the unadjusted misstatements (one new misstatement has been added since the progress note to the Committee in May), set out in the identified misstatements section, page 9, should be corrected. The Audit and Risk Committee minutes should provide written endorsement of management's reasons for not adjusting misstatements.

**What is the status of our audit?**

Our audit work is substantially complete. However, at the time of writing, there are a number of steps to complete before we finalise our audit, including:

Item	Responsible
Review of signed annual report and accounts	LGBCE and NAO

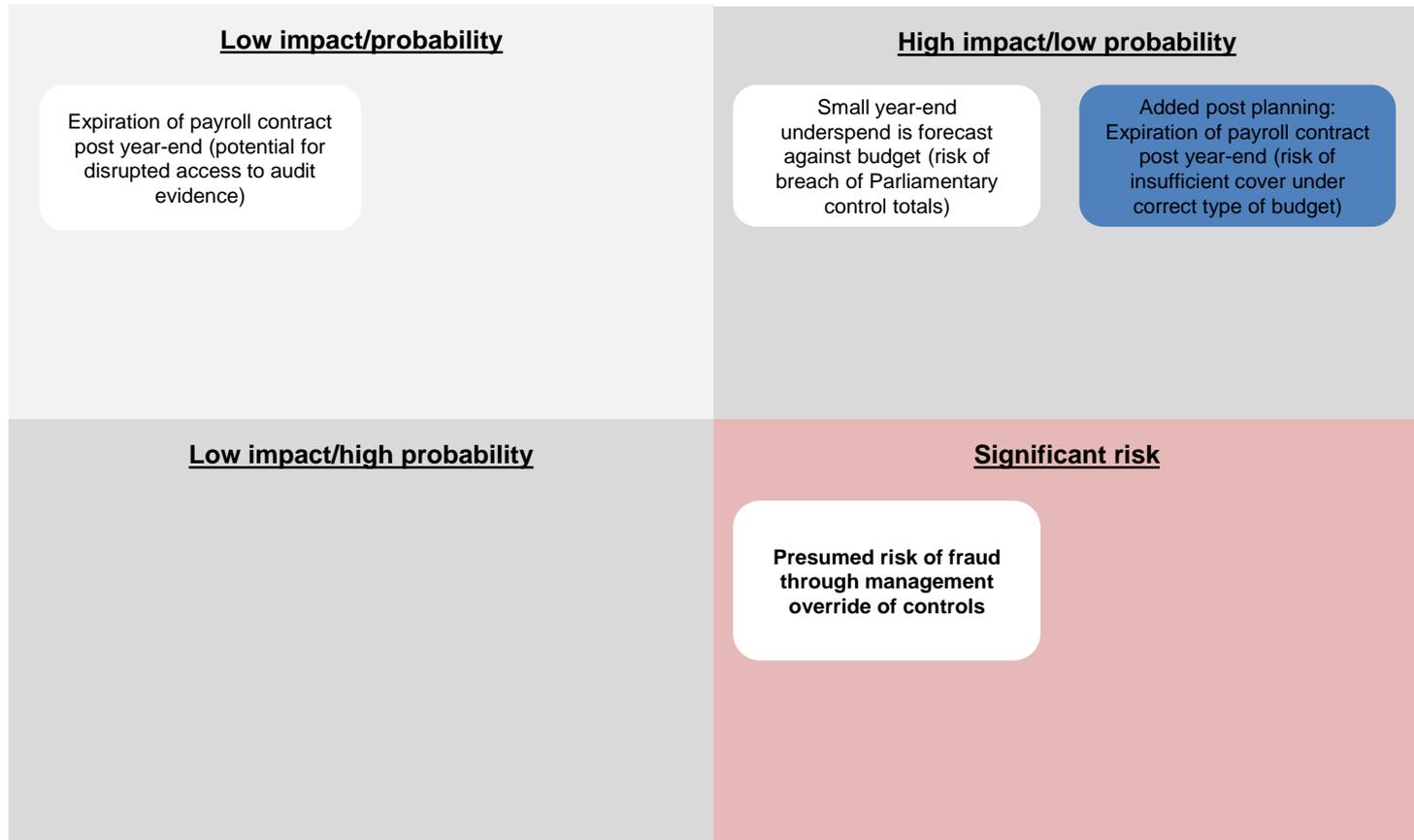
The total notional audit fee charged for the year is in line with that set out in our Audit Planning Report, £15,000.

The Accounting Officer will sign the annual report and accounts together with a letter of representation, the proposed wording of which is included in Appendix 1.

We identified the risks below in our Audit Planning Report presented to the Audit and Risk Committee in November 2016. During the audit, it became clear that the Commission would incur an early exit cost from the expiration of the payroll control – this raised the risk that the Commission would not have sufficient budget cover of the correct type. Responses and findings against these risks can be seen in the next section of this report.

### Impact on financial statements

#### Probability



We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. We are required to perform additional audit work for the most significant risks, of which we identified one at planning stage of the audit.

Presumed risk  
of fraud  
through  
management  
override of  
controls

#### Description of risk

Auditing Standard ISA240 states that there is a significant risk in all entities that management override controls to perpetrate fraud. The standard requires that auditors perform audit procedures to address this risk in the following areas:

- Journal entries
- Bias in accounting estimates
- Significant unusual transactions

#### Work performed and conclusion

We undertook specific testing to address these risks (for example sample testing of higher risk non-routine journal entries) and assessed the Commission's processes for preventing and identifying any override of management controls.

No issues were noted.

**This risk has been addressed with no issues noted**

The other risks were addressed as part of our standard substantive testing.

### Spend against budget

#### Description of risk

At planning stage, a relatively small year-end underspend was forecast against budget. We noted that if spend is not tightly controlled, an overspend may arise leading to a breach of Parliamentary control totals.

#### Work performed and conclusion

The Statement of Parliamentary Supply shows a variance against budget of £191,000. The commentary accompanying the statement says that this is due to high staff turnover resulting in both lower staff costs and lower project spend than originally anticipated. This accords with our understanding of the Commission's activities.

Our work completed confirms no material issues with the completeness of expenditure. **We have now confirmed management's detailed post balance sheet event review of invoices received against expenditure and accruals currently booked within the 2016-17 accounts. No issues arising.**

### Expiration of payroll contract

#### Description of risk

We noted at planning stage that the anticipated expiration of the payroll contract post year-end had the potential for disrupted access to audit evidence.

During the audit, it also became clear that the Commission was intending to exit the payroll contract one year early, and would therefore incur an early exit cost. The Commission has recognised this cost as an accrual in the financial statements.

If this accrual is incorrectly classified, it may score incorrectly against the Commission's RDEL budget, instead of against the RAME budget as it would if it were a provision.

#### Work performed and conclusion

We have completed our audit work over payroll costs with appropriate and timely access being provided to supporting information and no material issues arising.

We have inspected confirmation from the contractor that the Commission's intention to exit the contract was agreed with the contractor before the year end. We have also viewed evidence from management of when the value of the early exit cost was agreed.

We are content that the exit cost has been correctly treated as an accrual, and therefore scores correctly against the Commission's RDEL budget.

**Adjusted misstatements** Misstatements that we have identified, have been adjusted and are above our clearly trivial threshold of £1,000 are set out below. There was no overall net impact on either the statement of net expenditure nor on the statement of financial position.

### Adjusted Misstatements

Description	Account line	SoCNE	SoCNE	SoFP	SoFP
		Dr £000	Cr £000	Dr £000	Cr £000
Being the incorrect recognition of a cash payment made in April 2017 as a pre-year cash payment, instead of a payable at year end.	Trade payables				26
	Cash			26	
	Supply payable				26
	General fund (reserves)			26	
<b>TOTAL</b>		<b>0</b>	<b>0</b>	<b>52</b>	<b>52</b>

**Unadjusted misstatements**

Uncorrected misstatements would decrease spend and increase net assets by a further £21,000.

**Unadjusted misstatements**

The table below lists unadjusted misstatements which exceed our clearly trivial threshold of £1,000.

Description	Account line	SoCNE	SoCNE	SoFP	SoFP
		Dr £000	Cr £000	Dr £000	Cr £000
Being the incorrect reporting of the Millbank Tower lease expense as the cash payment value. In line with IAS17, the operating lease expense should be spread evenly over the total lease term.	Operating lease expense	6			
	Trade payable				6
Being the reduction in depreciation/amortisation charge from the start of the period if extended UELs had been used (see page 13)	Depreciation/amortisation		27		
	Tangible and intangible assets			27	
<b>TOTAL</b>		<b>6</b>	<b>27</b>	<b>27</b>	<b>6</b>

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**Financial statement disclosures**

We have also made a number of small suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the FReM and other relevant guidance.

We found the disclosures in the financial statements overall to be neutral, consistent and clear.

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**Accounting policies and financial reporting**

As part of our audit, we consider the quality and acceptability of the Commission's accounting policies and financial reporting. Our audit has found that the Commission's accounting policies are on the whole appropriate to the Commission and its activities. The judgements made by the Commission on their accounting policies were found to be appropriate to the entity and its activities. There were no new or changed policies in 2016-17.

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**Regularity, propriety and losses**

We found no issues of irregularity or impropriety during our audit. There were no losses disclosed in the accounts; this was deemed to be accurate.

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**Materiality**

A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on our professional judgement, we determined overall materiality for the Commission's financial statements at £40,000, which is approximately 2% of gross expenditure.

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**Performance materiality**

This is the amount or amounts set by the auditor at a level not higher than 75% of materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

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**Reporting threshold**

All uncorrected misstatements identified through our audit in excess of £1,000, as well as differences below this threshold that in our view warranted reporting on qualitative grounds, are included in this report.

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**Audit Scope**

We have completed our audit of the 2016-17 financial statements in accordance with International Auditing Standards (UK and Ireland) issued by the Financial Reporting Council and with the audit planning report presented to the Audit and Risk Committee in June 2017.

We have also read the content of the draft annual report and the governance statement to confirm:

- their consistency with the financial statements and our understanding of the business;
- that the audited part of the accountability report has been properly prepared; and
- that the governance statement has been prepared in accordance with HM Treasury guidance.

As part of our audit, we assessed:

- whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Accounting Officer; and
- the overall presentation of the financial statements.

We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

We have reviewed evidence to demonstrate that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement.

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**Internal control**

During the course of our audit we identified one control observation, detailed below.

	Observation	Recommendation	Management response
<b>Management of non-current assets</b>	<p>Our testing identified numerous non-current assets that, by the current year end, had been fully depreciated to a nil net carrying value. However, all of these assets were reported by the Commission to be still in use with positive economic value, at the year end.</p> <p>This indicates that the useful economic lives of these assets have historically been under-estimated, leading to an overstatement of depreciation and amortisation in prior years, with an understatement in their carrying value in 2016-17 and, potentially, in future years.</p> <p>We have included the potential impact/adjustment on the current year accounts at page 9. This is not material in the current period.</p>	<p>We recommend that LGBCE carry out an annual review of their non-current asset register, considering any potential additions, disposals, revaluations and re-assess the remaining useful economic lives for all classes of assets.</p> <p>Continued existence and use of assets should be considered during this annual review, as well as the need for any impairment in the value of assets.</p>	

Title	What was the recommendation?	Response/Progress	Status
<b>Management review of year- end annual report and accounts</b>	We recommended that a review of the Annual Report and Accounts was performed by management prior to presenting them for audit.	The Commission presented a good quality first draft of the Annual Report and Accounts in line with the agreed timetable.	<b>Implemented</b>
<b>Budget monitoring</b>	We recommended that the Commission should consider monitoring outturn expenditure against budget throughout the year on an accruals, rather than cash, basis.	The Commission continue to monitor outturn expenditure against budget on a cash basis. Given the small size of the Commission management do not consider there to be sufficient benefits to carrying out an accruals exercise each quarter.	LGBCE agreed not to implement
<b>Finance system IT controls</b>	<p>We recommended that minimum password settings are set with respect to access to the finance system, or assurance obtained that users are complying with the Commission's password policy.</p> <p>In addition, a revised new user set-up process should be applied from 2016-17.</p>	<p>The Commission have taken the view that only a small number of users have access to the finance system. They undertook a risk assessment and concluded that even if a perpetrator entered the system with no authority, there would be no significant activities they could undertake without attracting discovery during the Commission's standard month end procedures.</p> <p>Revised new starter procedures were implemented in 2016-17.</p>	<b>Implemented agreed actions and mitigating controls</b>

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**Independence**

We consider that we comply with Auditing Practices Board (APB) ethical standards and that, in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between us and the Commission that we consider to bear on our objectivity and independence.

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**International standards on Auditing (UK and Ireland)**

We consider that there are no additional matters in respect of items requiring communication to you, per International Standards on Auditing (UK and Ireland), that have not been raised elsewhere in this report or our audit planning report. Items requiring communication cover:

- Fraud
- Going concern
- The Commission's compliance with laws and regulations
- Significant difficulties completing the audit
- Disagreements or other significant matters discussed with management

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**Cooperation with other auditors**

We liaise closely with internal audit throughout the audit process and seek to take assurance from their work where their objectives cover areas of joint interest.

Following our initial review of internal audit's plans we did not plan to place reliance on their work this year, however we have liaised with them through the course of the audit, reviewed the findings from their work and considered the implications for our audit on an ongoing basis.

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#### LETTER OF REPRESENTATION: LOCAL GOVERNMENT BOUNDARY COMMISSION FOR ENGLAND 2016-17

I acknowledge as Accounting Officer of the Local Government Boundary Commission for England my responsibility for preparing accounts that give a true and fair view of the state of affairs, net cost of operations, changes in taxpayers' equity and cash flows of the Commission for the year ended 31 March 2017.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and
- make an assessment that the Commission is a going concern and will continue to be in operation throughout the next year; and ensure that this has been appropriately disclosed in the financial statements.

I confirm that for the financial year ended 31 March 2017:

- neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money;
- having considered and enquired as to the Commission's compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the Commission to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the Commission have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- the information provided regarding the identification of related parties is complete; and the related party disclosures in the financial statements are adequate.

All material accounting policies as adopted are detailed in note 1 to the accounts.

#### INTERNAL CONTROL

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with HM Treasury guidance on the Governance Statement.

#### FRAUD

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the Commission and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, analysts, regulators or others.

**ASSETS****General**

All assets included in the statement of financial position were in existence at the reporting date and owned by the Commission, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The statement of financial position includes all tangible assets owned by the Commission.

**Non-Current Assets**

All assets over £5,000 are capitalised. They are revalued annually using indexation where material. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Commission's operations.

**Other Current Assets**

On realisation in the ordinary course of the Commission's operations the other current assets in the statement of financial position are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Commission which are known, or may be expected, to be irrecoverable.

**LIABILITIES****General**

All liabilities have been recorded in the statement of financial position. There were no significant losses in the year and no provisions for losses were required at the year-end.

**Contingent Liabilities**

I am not aware of any pending litigation which may result in significant loss to the Commission, and I am not aware of any action which is or may be brought against the Commission under the Insolvency Act 1986.

**OTHER DISCLOSURES****Results**

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Commission, or circumstances of an exceptional or non-recurring nature.

**Unadjusted Errors**

The following unadjusted errors have been brought to my attention:

- £6k understatement of expenditure and payables, being the incorrect reporting of the Millbank Tower lease expense as the cash payment value. In line with IAS17, the lease expense should be the smoothed total cost of the lease over the total lease term.
- £27k overstatement of depreciation/amortisation charge and understatement of net book value for the Commission's assets, due to revisions in the useful economic lives.

I consider the effect of these unadjusted errors to be immaterial, both individually and in aggregate, to the financial statements taken as a whole.

**Events after the Reporting Period**

Except as disclosed in the accounts, there have been no material changes since the reporting date affecting assets, liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

**Management of Personal Data**

Except as disclosed in the relevant sections of the Annual Report, there have been no personal data related incidents in the accounting period subject to audit which are required to be reported.

Jolyon Jackson, Chief Executive and Accounting Officer

June 2017

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT**

I certify that I have audited the financial statements of the Local Government Boundary Commission for England for the year ended 31 March 2017 under the Local Democracy, Economic Development and Construction Act 2009. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes and the information in the Remuneration and Staff Report that is described in those reports and disclosures as having been audited.

**Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report; which comprises the Performance Report and the Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

**Opinion on regularity**

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

**Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Commission's affairs as at 31 March 2017 and of the Commission's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Democracy, Economic Development and Construction Act 2009 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the Statement of Parliamentary Supply and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Local Democracy, Economic Development and Construction Act 2009; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements, the Statement of Parliamentary Supply and the parts of the Remuneration and staff Report and Parliamentary disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**  
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**Date**