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NOTICE OF MEETING

Meeting:	**Audit Committee**
Date and Time:	**Tuesday 23 March 2021 7.00 pm**
Place:	**Council Chamber**
Enquiries to:	**Celia Wood** **committeeservices@hart.gov.uk**
Members:	**Blewett, Crookes, Delaney, Makepeace-Browne (Chairman), Smith, Southern and Wildsmith**

Joint Chief Executive

CIVIC OFFICES, HARLINGTON WAY
FLEET, HAMPSHIRE GU51 4AE

AGENDA

This meeting is being administered under the provisioning of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meeting) (England and Wales) Regulations 2020. The Provision made in this regulation applies notwithstanding any prohibition or other restriction contained in the standing orders or any other rules of the Council governing the meeting and such prohibition or restriction had no effect.

This Agenda and associated appendices are provided in electronic form only and are published on the Hart District Council Website

1 MINUTES OF THE PREVIOUS MEETING (Pages 4 - 6)

The Minutes of the meeting held on 27 October 2020 are attached to be confirmed and signed as a correct record.

2 APOLOGIES FOR ABSENCE

To receive any apologies for absence from Members*.

***Note:** Members are asked to email Committee Services in advance of the meeting as soon as they become aware they will be absent.

3 DECLARATIONS OF INTEREST

To declare disclosable pecuniary, and any other, interests*.

***Note:** Members are asked to email Committee Services in advance of the meeting as soon as they become aware they may have an interest to declare.

4 CHAIRMAN'S ANNOUNCEMENTS

5 INTERNAL AUDIT PROGRESS REPORT 2020/21 (Pages 7 - 28)

To update the Committee on Internal Audit work carried out between November 2020 and March 2021.

RECOMMENDATION

That the Internal Audit work completed between November 2020 and March 2021 be noted.

6 ACCOUNTING POLICIES (Pages 29 - 48)

The purpose of the report is to provide the Accounting Policies to the Audit Committee to consider and approve so that they can be followed and complied with during the production of the 2020/21 Statement of Accounts.

RECOMMENDATION

That the committee approves the Accounting Policies as shown in Appendix 1 to this report.

7 INTERNAL AUDIT PLAN 2021/22 (Pages 49 - 51)

To inform members of the content of the 2021/22 Internal Audit Plan, attached as Appendix 1.

RECOMMENDATION

That the Committee approves the Internal Audit Plan for 2021/22.

8 ANNUAL AUDIT LETTER FOR YEAR ENDED 31 MARCH 2020 (Pages 52 - 79)

To review the content of the 2019/20 Annual Audit Letter.

Date of Despatch: Monday, 15 March 2021

AUDIT COMMITTEE

Date and Time: **Tuesday 27 October 2020 at 7.00 pm**

Place: **Hart District Council Offices**

Present:

Makepeace-Browne (Chairman), Blewett, Delaney, Wildsmith, Crookes, Smith and Southern

In attendance:

Officers:

11 MINUTES OF THE PREVIOUS MEETING

The Minutes of the meeting held on 21 July 2020, were confirmed and signed as a correct record.

12 APOLOGIES FOR ABSENCE

None received.

13 CHAIRMAN'S ANNOUNCEMENTS

The Chairman advised the Committee that the order of the meeting had changed from the published Agenda.

14 DECLARATIONS OF INTEREST

None received.

15 ANNUAL GOVERNANCE STATEMENT 2019-20

The Committee reviewed the content of the final Annual Governance Statement for 2019/20.

DECISION

Members approved the Annual Governance Statement for 2019/20.

16 AUDIT RESULTS REPORT 2019-20

The Council's External Auditors reported the key findings of their audit to those charged with governance prior, to issuing their opinion on the 2019/20 Statement Accounts. This report was substantially complete and considered the impact of COVID-19. Risk Assessment had been decreased and on track to complete all outstanding procedures by end of November.

Members discussed:

- The Pension Fund assets being understated, the figure had been adjusted by management.
- The Hart Leisure Centre being a non-investment property and listed under Other Land and Buildings and the Edenbrook Development was confirmed as a fixed asset which is still to be completed.
- There were no concerns regarding withdrawal from the Five Council's Contract which had been appropriately managed and any outstanding funding would appear in next year's Audit Plan.

DECISION

1. Members agreed to any uncorrected misstatements in Appendix B of the Annual Results Report (Appendix 1 - Ernst & Young LLP) remaining uncorrected.
2. Members formally noted the opinion of the Auditors on the draft Statement of Accounts.
3. All other respects the report of the External Auditors was noted.

17 STATEMENT OF ACCOUNTS AND LETTER OF REPRESENTATION

Members were informed of the position of the EY LLP audit of the statements and any amendments arising from the audit.

The Chairman and the Committee thanked the S151 Officer for the review sessions and focused training meetings.

The draft statements were published at the end of August and the final accounts to be published by end of November. These had been reviewed by Members and no subsequent questions had arisen. Members were advised that revaluation reserves will be recognised through the income expenditure account.

DECISION

That the Chair of Audit Committee have delegated authority, in consultation with the Head of Corporate Services for the final approval of the 2019/20 Statement of Accounts and letter of representation.

18 INTERNAL AUDIT PROGRESS REPORT 2020/21

The Audit Manager updated the Committee on the work completed on Internal Audit work carried out between July 2020 and October 2020. They were advised that the Corporate Risk Register had been reviewed and will be coming back to Overview & Scrutiny in March 2021. Members were advised of one change later this year on the waste contract and disability grants.

The Chairman thanked the Audit Team for their hard work and reminded Members of Fraud Awareness training commencing this week. Members questioned the Place Risk Service Plan and were reassured that this will be available at the next Audit Committee. Concerns were raised around purchase order transactions, credit card checks and obtaining VAT receipts and members were advised that an accounts payable audit will be carried out before Christmas. There was only one emergency procurement during the last 6 months on expenditure on laptops for home working.

Note: Members asked for an update on the waste contract which would be requested from the Chief Executive.

DECISION

That the internal Audit work carried out between July 2020 and October 2020 be noted.

The meeting closed at 7.50 pm

AUDIT COMMITTEE

DATE OF MEETING: **23 MARCH 2021**

TITLE OF REPORT: **INTERNAL AUDIT PROGRESS REPORT 2020/21**

Report of: **Internal Audit Manager**

Cabinet Member: **Councillor James Radley, Finance and Corporate Services**

1. PURPOSE OF REPORT

1.1 To update the Committee on Internal Audit work Carried Out between November 2020 and March 2021.

2. OFFICER RECOMMENDATION

2.1 That the Internal Audit work completed between November 2020 and March 2021 be noted.

3. BACKGROUND

3.1 Internal Audit prepares a risk based plan which identifies the work that is to be carried out during the year. The plan was approved by the Committee in July 2020. The plan for 2020/21 is a reduced one, taking into account the impact of COVID-19 has had on internal audit work.

3.2 Progress on internal audit reviews is shown below:

Area of Review	Current Status	Target Completion Date
IT Controls	Complete	
Fraud Risk Assessment	Complete	
Accounts Receivable	Complete	
Payroll	In progress	March 21
Council Tax & Business Rates	Complete	
Cash Management	Complete	
Housing Benefits	In progress	April 21
Treasury Management	In progress	April 21
Accounts Payable	Complete	
Main Accounting	Complete	
Waste Contract	Carried forward to 21/22 Plan	
Section 106 Agreements	In progress	April 21
Audit Committee Request on payments	Complete	

4. CONSIDERATIONS

4.1 Planned Work

During the period between November 2020 and March 2021 reports were issued for:

IT Controls
Accounts Receivable
Accounts Payable
Council Tax & Business Rates
Main Accounting

4.2 Unplanned Work

Resources from Internal Audit continue to be used to complete the Business Grants Payment process, it is likely that this will continue in the short term. In order to complete our planned reviews that are in progress the Council has backfilled the in-house resource. Details are shown below:

Review	Work Carried Out By
Main Accounting	TIAA
Housing Benefits	KPMG
Treasury Management	KPMG
S106/SANGS	Wokingham Brough Council

4.3 The cost of these reviews will be met from Additional Burdens Funding, the estimated cost being £18K.

4.4 Follow Ups

4.5 During 2020/21 7 High Risk Recommendations have been made to date. Of these 4 have been completed, 1 is in progress and 2 are outstanding. Revised dates for the high risk recommendations have been agreed by with management.

4.6 Fraud

We have carried out a number of post Business Grant payment checks to identify potential frauds.

4.7 We have completed our programme of Fraud and Cyber Risk Training.

4.8 We have now forwarded on our data to the National Fraud Initiative, this is an annual national data matching exercise, for 20/21 we were asked to send additional data on Business Grants. Any data matches that are identified as a potential fraud will require follow up by either Internal Audit or Capita's Fraud Team.

5. Risk Management

5.1 Internal Audit continue to facilitate the risk management process to ensure there are effective arrangements in place to manage risk. A summary is shown below:

Requirement	How Achieved	Effectiveness
Corporate Risk Register in place and reviewed	Corporate Risk Register is in place. The content of the register was reviewed by Leadership Team in February 2021. Content of the risk register was reported to Overview and Scrutiny in March 2021.	Good level of assurance
Operational Risk Registers linked to Service Plans	**Corporate Services** – Risk Register in place **Community Services** Risk Register in place **Tech Services** Risk Register in place but needs further review **Place** Risk Register in place Proposal to include link to Risk Registers in Service Plans, has not yet been actioned.	Partial Assurance
Risk clearly identified in key decision making process	Risks are included in Cabinet Reports for key decisions.	Good level of assurance
Regular reviews by management of Corporate Risk Register and Service Risk Registers.	Corporate Risk Register is reviewed in line with Audit Committee dates.	Good level of assurance
Ownership of risks that are identified	Ownership of each risk is clearly identified.	Good level of assurance
Risk Management Policy in place	Revised policy was adopted in March 18. Policy reviewed Feb 21.	Good level of assurance

6. FINANCIAL AND RESOURCE IMPLICATIONS

6.1 There are no direct financial implications arising from this report.

Contact: Neil Carpenter, Ext 4140, neil.carpenter@hart.gov.uk

APPENDICES
Appendix 1 - IT Controls
Appendix 2 - Accounts Receivable
Appendix 3 - Accounts Payable
Appendix 4 - Council Tax & Business Rates
Appendix 5 - Main Accounting

Area of Review	**IT Controls**

CONTROL OBJECTIVES

CONTROL OBJECTIVES	
1	That Network Access is Managed Effectively
2	That Assets are Held Securely
3	That Appropriate Backup and Continuity Arrangements are in Place
4	That Information Management complies with the requirements of GDPR
5	That Business Continuity for Covid-19 relating to IT and Data Management has been documented, risk assessed and managed effectively

OPINION ON CONTROL FRAMEWORK

The overall level of opinion that can be provided on the internal control framework for this review is:

LEVELS OF ASSURANCE	
Substantial	Substantial assurance given where there is a sound system of controls in place, which applied consistently to enable achievement of the intended objective
Satisfactory	Satisfactory assurance given where there is generally a sound system of internal control in place with only minor lapses
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning that the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted in a failure to achieve objectives

Conclusions

1. There is still considered to be some risks regarding the management of the Active Directory, although it is noted that there has been a recent review by Hart IT, and good progress is being made.
2. Starter and Leavers procedures are still inconsistent and need to be addressed to not only manage IT access but to ensure security passes and mobile devices are managed.
3. The action plan for the Data Strategy Workshop needs to be progressed and implemented this will help identify where responsibilities lie and ensure that Hart is confident how data is held, used and distributed.
4. In order to move forward with an IT plan the change control document which defines where the IT responsibilities lie for Hart IT and Capita IT needs to be agreed - this is critical to ensure that the necessary controls are in place to manage IT going forward. The delay in finalising the Change Control is having an impact on the control environment and our operating environment.
5. There has been some work started on streamlining the IT policies – once complete officer and members should be briefed and signposted to these documents
6. During the business continuity work through Covid there were some emergency decisions were made and these were reported to Cabinet. Going forward and into the recovery phase and into the Revitalise Hart Programme, consideration should be given to data management and IT risks to ensure going forward the controls are in place and there is compliance with legislation.
7. IT insurance is in place, however there were some weaknesses in some of the cover. This is being reviewed by finance and should include any weaknesses in cover for homeworking arrangements.
8. Data Management is a risk for the council and with new working arrangements, including homeworking and more use of mobile devices and less office oversight brings new risks in data management. Consideration should be given to how this is managed going forward.
9. Good progress is being made to roll out corporate devices for homeworking. However, to ensure that we have safeguarded data during the lockdown period a full review and deletion of data from personal devices with confirmation this has been actioned should be considered.
10. It is noted that improvements have been made during the year on data management, it is fully recognised that there are no quick fix to resolve some of the more long-standing issues that remain.

	Risk/Issue	Risk Assessment	Management Response	Resp Officer	Target Date
1	Unauthorised access to the network, due to weaknesses in the management of the Active Directory **This was a high risk finding raised in the IT controls audit in 2019/20**	Medium	Hart IT reviewed in August 2020 and will complete this activity each quarter. Review due November/December 2020 Head of Corporate Services to contact Capita Client to verify that the amendments sent following the last review in August have been actioned	Head of Corporate Services Capita IT	Completed
2	Lack of defined responsibilities over management and access controls on software used by the council e.g. Chipside, Uniform and Abritas.	High	Head of Service to take to Management team (November 2020) Change and Digital Manager to pick up these items as part of the Data Strategy Action Plan	Head of Corporate Services	March 2021
3	The action plan for the Data Strategy Workshop needs to be progressed and implemented	Medium	This will be picked up by the Change and Digital Manager, taking into ac count some of the risks highlighted in this report	Head of Corporate Services	March 2021
4	The starters and leavers processes are not consistently applied	High	The starters and leavers forms and processes are being looked at by HR and due to be implemented by the end of November	Head of Corporate Services	November 2020

5	There are a number of IT policies in place which need to be reviewed, potentially consolidated to reflect current working practices, best practice and legislation.	Medium	IT Polices are currently being reviewed and will be superseded by the new policies i.e., ICT security, and remote working. It is planned that these policies are due to go to O&S November 2020	Head of Corporate Services	December 2020
6	That Windows 10 will not be installed by January 2021 when Windows 7 goes out of support.	Medium	Microsoft have extended support for windows 7 – as of 14 January window 7 will no longer be in use	Head of Corporate Services	Completed
7	There is insufficient IT expertise in internal audit to be able to test the IT controls fully. An independent review of the technical control environment should be considered	Medium	There is to be a review of procuring IT audit expertise in IT	Head of Corporate Services	March 2021
8	Ensure that there is a plan in place to make sure documents / data etc is removed and permanently deleted from personal devices. Including confirmation of compliance from all officers.	Medium	Acceptable use policy is being reviewed O&S November to note Members and Officers to be given guidelines on removal of data from personal equipment following the roll out of corporate laptops	Head of Corporate Services	December 2020
9	Cyber risks and other IT risks not adequately insured	High	In progress – quotes received and details now being finalised	Head of Corporate Services	November 2020
10	Access to some systems cannot be undertaken due to issues with the VPN and firewall set up.	Medium	In progress – firewalls currently being upgraded which will allow for others	Head of Corporate Services	January 2021

Area of Review	Accounts Receivable

CONTROL OBJECTIVES

The scope of this review has encompassed the following control objectives:

Control Objectives	
1	That invoices to customers are raised in a timely manner
2	That invoices raised are accurate and properly accounted for
3	That effective debt recovery arrangements are in place
4	An appropriate back up process is in place

OPINION ON CONTROL FRAMEWORK

The overall level of opinion that can be provided on the internal control framework for this review is:

Levels of Assurance	
Substantial	Substantial assurance given where there is a sound system of controls in place, which applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance given where there is generally a sound system of internal control in place with only minor lapses, and in general, objectives achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted if a failure to achieve objectives

SUMMARY OF FINDINGS

Control Objective One: That invoices to customers are raised in a timely manner

- There are appropriate procedure notes in place for staff to follow with regards to the accounts receivable process.
- Testing found that invoices sent to customers are raised in a timely manner

Control Objective Two: That invoices raised are accurate and properly accounted for

- The council has up to date information on our website on fees and charges for services provided.
- Supporting documentation for invoices raised was retained for the majority of the sample tested. However, testing showed that not all staff are retaining the required evidence.
- Testing found that both credit notes and debtor invoices are raised and authorised by appropriate officers.
- An appropriate reconciliation is undertaken to ensure that the general (nominal) ledger and sales ledger balance.
- The council has satisfactory controls in place that ensures accounts receivable income has been properly accounted for.
- The council has an appropriate suspense accounts in place for unidentified payments which are reviewed on a regular basis.

Control Objective Three: That effective debt recovery arrangements are in place

- The council has a relevant debt policy in place that outlines the general approach it must take towards debt recovery. However, it does need to be reviewed and updated.
- Testing found that standard reminders are sent out in a timely manner.
- Debt recovery on outstanding debt that has been through the standard reminder stages is not consistent and is often delayed, which will have an impact on the effectiveness of action taken. However, it is noted that the Head of Corporate Services has begun the process to start further recovery action including the potential of legal action where appropriate.
- There have been no write offs processed between March and August 2020.

Control Objective Four: An appropriate back up process is in place

- System Recovery processes are in place enabling the integrity of the system to be maintained in the event of a service disruption. However, reliance is placed on Capita as to their effectiveness.
- Regular reviews of Integra’s user access is undertaken.

Control Objective Five: Covid19 issues

- Based on Audit testing and information provided by Capita, the Covid-19 pandemic has not had a significant impact on the debt recovery process.

Management Action Plan

	Risk/Issue	Risk Assessment	Management Response / Proposed Mitigation	Resp Officer	Target Date
1	Not all staff are keeping relevant supporting evidence that backs up the original raising of debtors invoices . The potential of uploading supporting information to Integra should be explored to improve the audit trail.	Low	Staff are to be trained on how to upload and attach supporting documentation to Integra to improve the audit trail.	Finance Manager	Jan 2021
2.	The Debt Policy is not up to date and needs review and updating.	Medium	Debt policy will be updated and presented to O&S in January 2021	Head of Corporate Services	Feb 2021
3.	Managers and Heads of Service do not make the best use of the aged debt report they receive on a monthly basis.	Medium	This is now a standing item on Senior Leadership Teams on a monthly basis	Senior Leadership TTeam	Dec 20
4.	Heads of Service have not yet completed their review of Legal Lists where further recovery action could be taken. This needs to be completed as soon as possible.	Medium	All Heads of Service have now completed their review and Basingstoke and Deane have commenced recovery action.	Senior Leadership Team	Complete
5.	Recovery action is not taken by services in a	Medium	Basingstoke and Dean legal department	Senior Leadership Team	Complete

	timely manner on outstanding debt.		are now carrying out recovery action as above.		
6.	Write off requests are not processed in a timely manner. Better use of the Aged Debt Report may improve the write off process.	Medium	Write offs are now processed on a timely basis, authorise d and sent to Capita for write off based on monthly	Head of Corporate Services	Oct 20

Area of Review	Accounts Payable

CONTROL OBJECTIVES

The scope of this review has encompassed the following control objectives:

Control Objectives	
1	Payments are made in accordance with council financial regulations and contract standing orders
2	Payments are correctly authorised and properly accounted for
3	That credit card transactions are processed in accordance with policy and good practice
4	That appropriate backup arrangements are in place

OPINION ON CONTROL FRAMEWORK

The overall level of opinion that can be provided on the internal control framework for this review is:

Levels of Assurance	
Substantial	Substantial assurance given where there is a sound system of controls in place, which applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance given where there is generally a sound system of internal control in place with only minor lapses, and in general, objectives achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud, or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted if a failure to achieve objectives

Control Objective One: Payments are made in accordance with council financial regulations and contract standing orders

- The council has a satisfactory and up to date set of financial regulations that governs the payment of invoice process.
- Sample testing provide assurance that where necessary goods and services are procured they are supported by a relevant purchase order.
- The council has relevant procedure notes for staff to follow concerning the accounts payable process. However, they should be reviewed to ensure they remain up to date.
- There maybe a need to revise these procedures to consider the transition of the Exchequer Services from Capita to an in-house service.
- There are controls in place that helps to ensure team members are aware of what to do in the event potential fraudulent cases arise.
- The council has established controls which ensure adequate separation of duties between officers when purchase orders are raised and authorised. Testing indicates that these controls are working as expected.
- Testing indicates invoices are paid within a timely manner. However, no performance statistics were provided by Capita to support this opinion.

Control Objective Two: Payments are correctly authorised and properly accounted for.

- The council has a satisfactory reconciliation process to ensure everything posted to the purchase ledger has also posted the nominal ledger.
- Testing indicates that payments are coded to the correct accounts.
- Sample testing shows that satisfactory controls are in place concerning segregation of duties.
- There are adequate processes in place that ensure false suppliers are set up on Integra.
- Testing indicates that there are satisfactory controls in place governing the use of credit notes.
- The council continues to have checked and correctly authorised payment runs.
- Processes ensure that payment runs are checked for accuracy and authorised appropriately prior to being actioned.
- Monitoring and reporting of payments would be improved with the use of an Aged Creditor Report to identify disputed items and those that require further action to move forward in Integra.

Control Objective Three: That credit card transactions are processed in accordance with policy and good practice

- The council has a relevant policy in place that outlines are card transactions are processed with good practice. However, it needs to be reviewed to ensure it is up to date.

- Testing indicates that staff are purchasing goods in line with the established policy.

Control Objective Four: That appropriate backup arrangements are in place

- Due to no response from Capita, Internal Audit are unable to provide assurance that appropriate backup arrangements are in place.

Risks/Issues

	Risk/Issue	Risk Assessment	Management Response / Proposed Mitigation	Responsible Officer	Target Date
1	Procedure notes should be reviewed to consider the transition of Exchequer Services from Capita to and In-house Service.	Medium	Procedure notes will be reviewed and updated following transition when new ways of working are established.	Head of Corporate Services	30 June 2021
2	The credit card policy is overdue for review.	Medium	Will be updated.	Head of Corporate Services	31 July 2021
3	Due to the pandemic and remote working, staff are not always able to sign the credit card authorisation form.	Medium	The S.151 Officer is content with an email declaration around this going forwards and this will be incorporated in the Credit card policy.	Head of Corporate Services	31 July 2021
4.	There is no Aged Creditor Report produced that would allow any reporting of disputed payments or payments that require further action to.	Medium	We will be obtaining an aged creditor report at the end of the financial year as part of cutover and then we will be receiving one monthly after the service transfers.	Head of Corporate Services	30 April 2021

Area of Review	Council Tax & Business Rates

CONTROL OBJECTIVES

The scope of this review has encompassed the following control objectives:

Control Objectives	
1	That income is properly accounted for
2	That effective recovery action is taken against outstanding debt
3	That the Integrity of the System is Maintained
4	That the Impact of on Collection Rates due to COVID – 19 are reported
5	That Business Grants were only paid to eligible businesses

OPINION ON CONTROL FRAMEWORK

The overall level of opinion that can be provided on the internal control framework for this review is:

Levels of Assurance	
Substantial	Substantial assurance given where there is a sound system of controls in place, which applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance given where there is generally a sound system of internal control in place with only minor lapses, and in general, objectives achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud, or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted if a failure to achieve objectives

SUMMARY OF FINDINGS

Control Objective One: That income is properly accounted for:

- Sample testing indicates that there are controls in place to help ensure payments are received and posted to the relevant Academy accounts in an accurate and timely manner.
- Testing indicates that the suspense account continues to be regularly reviewed.
- Testing found that a satisfactory reconciliation is in place between Academy and Integra. However, completion throughout the year was at times delayed due to the pandemic.

Control Objective Two: That effective recovery action is taken against outstanding debt:

- The council has a relevant debt policy in place that outlines the general approach it must take towards debt recovery. However, it needs to be reviewed to ensure more specific recovery timeframes are outlined.
- No formal recovery work has been undertaken during 2020/21 due to the covid-19 pandemic. It is noted that 2 nudge letters were issued.

Control Objective Three: That the Integrity of the System is maintained:

- Capita has appropriate backups in place for Academy that help to ensure local tax information is not lost in the event the system crashes.
- Capita regularly reviews Academy's user access to ensure it is up to date.

Control Objective Four: That the Impact of on Collection Rates due to COVID – 19 are reported

- The council has controls in place to ensure that local tax collection rate performance is regularly reported.

Control Objective Five: That Business Grants were only paid to eligible businesses

- There are satisfactory controls in place to help provide assurance that covid-19 business grants are paid to eligible businesses.

Appendix 4

Summary of Identified Risks

Ref	Risk/Issue	Risk Assessment	Management Response	Responsible Officer	Target Date
1	The debt policy does not detail a specific timetable as to when debts are to be recovered as a result, debts owed are not recovered by the council.	Medium	The revised Debt Policy will go to O&S in April and Cabinet in May. This will include a timetable for collection.	Head of Corporate Services	30/05/2021
2.	Reconciliations between Integra and Academy need to be brought up to date.	Medium	These will all be brought up to date by the 30 April 2021. These are in progress.	Head of Corporate Services	30/04/2021

Area of Review	Main Accounting

CONTROL OBJECTIVES

The scope of this review has encompassed the following control objectives:

Control Objectives	
1	The Statement of Accounts are certified as correct following statutory external audit.
2	The annual budget is accurate and prepared in a timely manner.
3	Budget monitoring arrangements are robust.
4	Budget virements and other movement between accounts are done so in compliance with financial regulations.
5	Transaction from feeder systems are transferred completely accurately to the main accounting system.
6	System contingencies and backups are established and reviewed regularly.
7	High value journals are seen by at least 2 officers.
8	Key reconciliations are performed and are up to date and accurate.
9	Suspense accounts are reviewed and cleared on a regular basis.
10	Access to Integra is reviewed on a regular basis.

OPINION ON CONTROL FRAMEWORK

The overall level of opinion that can be provided on the internal control framework for this review is:

Levels of Assurance	
Substantial	Substantial assurance given where there is a sound system of controls in place, which applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance given where there is generally a sound system of internal control in place with only minor lapses, and in general, objectives achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted if a failure to achieve objectives.

SUMMARY OF FINDINGS

Control Objective One: The Statement of Accounts are certified as correct following statutory external audit.

- Approval of the Statement of Accounts and Annual Governance Statement are delegated to the Audit Committee, both were approved 27 October 2020.
- The Annual Governance Statement is signed by the joint CEO's and Leader of the Council.
- The Statement of Responsibilities is signed by the Section 151 Officer and Chair of Audit.

Control Objective Two: The annual budget is accurate and prepared in a timely manner.

- A budget procedure is documented within the Council's Financial Regulations.
- The Budget was prepared and approved in accordance with the Council's Financial Regulations.
- Formal systems exists for consultation with Services during the preparation and agreement of Estimates.

Control Objective Three: Budget monitoring arrangements are robust.

- Budget Holder responsibilities are clearly defined within Financial Regulations.
- Training and guidance has been provided to Budget Holders on Budget Monitoring.
- Budget monitoring was not carried out between April and August 2020 due to the effects of COVID-19 operations. Since then it has been carried out on a monthly basis with the occasional requirement to remind a few budget holders.
- Budget reports are real time through Integra which enables effective budget monitoring.
- Variances are reported with explanations obtained in a satisfactory manner.
- Variances are reported to both Senior Management and Council.

Control Objective Four: Budget virements and other movement between accounts are done so in compliance with financial regulations.

- Virements are authorised according to the Scheme of Delegation, this Scheme is Part 3c of the Council's Constitution and is available on the Council website, to which all staff have access.
- The Council's Financial Regulations have now been fully updated and revised and detail the process for requesting and managing virements and demonstrate sound governance.
- No evidence was found of non-compliance with Financial Regulations or Scheme of Delegation. Review of journals demonstrated appropriate separation of duties between those raising and authorising virements.

Control Objective Five: Transaction from feeder systems are transferred completely accurately to the main accounting system.

- There are two feeder systems in operation, Zellis for payroll and Pay360 for income received directly into the Hart District Council bank account, including Council Tax and NNDR.
- No issues were identified as part of our testing of transactions processed via the above feeder systems to Integra.

Control Objective Six: System contingencies and backups are established, effective and reviewed regularly.

- Systems are back up daily with tapes taken off-site to a secure location on a weekly basis. Backups for Integra is carried out by Capita.
- There is an appropriate Business Continuity Plan for Integra, this is part of the Council's Business Continuity Plan.

Control Objective Seven: High value journals are seen by at least 2 officers.

- Journals can be posted to Integra by authorised staff at both Hart District Council and Mendip District Council.
- High value journals reviewed were found to be entered and authorised in accordance with Council's procedures.
- A sample of journals was checked to ensure all showed control totals, a meaningful descriptive narrative, staff had the necessary authority to post journals and, where appropriate, senior officer authority was obtained. No exceptions were noted.
- It is not possible to post unbalanced journals.

Control Objective Eight: Key reconciliations are performed and are up to date and accurate (including from feeder systems such as Revenue and Payroll).

- There are four bank accounts operated by Hart District Council. The bank accounts are reconciled on daily basis.
- Comprehensive written procedures exist for bank account reconciliations.
- Control accounts are primarily used as part of the payroll posting process, payments to HMRC, LGSS etc. These are reconciled on a monthly basis. Sample test of account codes showed this to be the case.

Control Objective Nine: Suspense accounts are reviewed and cleared on a regular basis.

- Two suspense accounts are in operation, one for General and one for Fixed Assets.
- Suspense accounts are regularly reviewed and updated.

Control Objective Ten: Access to Integra is reviewed on a regular basis.

- Access to the finance system is restricted to authorised personnel by the use of passwords and system parameters. Access controls are comprehensive.
- There are good protocols in place for user password security.

Management Action Plan

Risk/Issue	No issues arising

AUDIT COMMITTEE

DATE OF MEETING:	**TUESDAY 23RD MARCH 2021**
TITLE OF REPORT:	**APPROVAL OF ACCOUNTING POLICIES 2020/21**
Report of:	**Head of Corporate Services**
Cabinet member:	**Councillor James Radley**

1 PURPOSE OF REPORT

1.1 The purpose of the report is to provide the Accounting Policies to the Audit Committee to consider and approve so that they can be followed and complied with during the production of the 2020/21 Statement of Accounts.

2 OFFICER RECOMMENDATION

2.1 That the committee approves the Accounting Policies as shown in Appendix 1 to this report.

3 BACKGROUND

3.1 It is the responsibility of the charged with governance (the Audit Committee) to consider and agree the accounting polices to be applied to the Statement of Accounts for the year ended 31st March 2021.

3.2 The Audited Statement of Accounts is a statutory requirement of the Council. It reports the Council's income and expenditure for the year ended 31 March 2021 and its financial position as at the 31st March 2021.

4 CONSIDERATIONS

4.1 The accounting policies have not changed from the previous accounting policies used for the preparation of the 2019/20 Statement of Accounts. There are no key changes in policies required to comply with the 2020/21 CIPFA Code of Practice.

5 FINANCIAL AND RESOURCE IMPLICATIONS

5.1 The Statement of Accounts is a key corporate deliverable and fully utilises all finance staff as well as using the resource of some non-finance staff in its preparation.

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Appendix 1 – Accounting Policies

The Accounting Policies in Hart District Council's accounts are not presented in one section at the front of the accounts but are detailed in the relevant sections within the document. This document presents all of the accounting policies in one place for consideration and review by the Audit Committee.

General Accounting Policy regarding Code of Practice and Going Concern

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end on 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code'), supported by International Financial Reporting Standards (IFRS).
These accounts have been prepared on a going concern basis which means that the functions of the Council will continue in operational existence for the foreseeable future.

Accruals

Income and Expenditure – Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Revenue from sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council, in accordance with any performance obligations within contracts.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.

Disposal of Assets

Where an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal.

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Accounts.

Investments
The Council accounts for investments in accordance with the Treasury Management Strategy, which is set annually. The Council's investment priorities are:

- the security of capital and
- the liquidity of its investments
- the yield on maturity of the investment

Minimum revenue provision (MRP)
Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the Council to make an annual charge to revenue to contribute towards the reduction in its overall borrowing requirement - known as a Minimum Revenue Provision.

The Council has adopted the asset life method of calculating MRP where the charge is spread in equal annual instalments over the life of each asset that creates a borrowing requirement. MRP commences in the financial year following either the year in which the expenditure was incurred or the year when the asset becomes operational. This excludes all investment properties as these properties will be financed once the property is sold and if the value of the property reduces a reserve will be created.

Any interest costs to the Comprehensive Income and Expenditure Statement in relation to finance leases will also be mitigated by a corresponding MRP adjustment.

Overheads
The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

Prior Period Adjustments, changes in Accounting Policies and Estimates and Errors
Prior period adjustments may arise because of a change in accounting policies or to correct a material error. Changes in accounting estimates area accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied.

Material errors discovered in prior period figures and corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Revenue recognition
Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth. Revenue is recognised when it is probable that future economic benefits will flow to the Council and these benefits can be measured reliably.

IFRS 15 (Revenue from Contracts with Customers) is applied in accounting for revenue arising from the following transactions and events:

- the sale of goods
- the rendering of services
- interest, royalties and dividends.
- non-exchange transactions (i.e. Council tax)
- where previously a liability had been recognised (i.e. creditor) on satisfying the revenue recognition criteria

The amount of revenue arising on a transaction is usually determined by agreement between the Council and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable considering the amount of any trade discounts and volume rebates allowed by the Council.

VAT

Value Added Tax is excluded from both revenue and capital in terms of both income and expenditure except where the Council is not able to recover VAT on expenditure. HM Revenue and Customs allow Local Councils to recover the majority of VAT incurred.

Collection Fund
The Collection Fund Statement is a record of revenue expenditure and income relating to the Council's role as a billing authority for Council tax and national non-domestic rates (NNDR) in accordance with the requirements of section 89 of the Local Government Finance Act 1988. Its primary purpose is to show the transactions of the billing authority in relation to the collection from taxpayers of tax due and its distribution to other local authorities, Major Preceptors and the Government. Collection Fund Statement items are only included within the Comprehensive Income and Expenditure Account and Balance Sheet when they relate to the Council's own entitlements or commitments as distinct from those of Local Government or Central Government partners. Amounts owed to or owing by taxpayers at the Balance Sheet Date are therefore not shown in the Council's Balance Sheet with the exception of the proportion of Council tax to which the Council itself is entitled

It also shows how the income is distributed between Hart District Council, Hampshire County Council, Hampshire Police and Crime Commissioner and Hampshire Fire and Rescue Authority.

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council tax and non-domestic rates (NDR). The fund key features relevant to accounting for Council tax in the core financial statements are:

- While the Council tax income for the year credited to the Collection Fund is the accrued income for the year regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.

- Council tax income included in the Comprehensive Income and Expenditure Account for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Account and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Since the collection of Council tax and NDR Income is in substance an agency arrangement:

- Cash collected by the billing authority from Council tax debtors belongs proportionately to the billing authority and the major preceptors. There will be therefore a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council taxpayers.

- Cash collected from NDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the government and preceptors and the amount not yet paid to them at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the government and preceptors exceeds the cash collected from NDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

MATERIAL ITEMS OF INCOME AND EXPENDITURE

The Council incurs significant expenditure through its delivery of services, and it receives significant income from a number of sources to fund this. For example, the Council incurs a significant proportion of it's spend on benefit payments, which is funded predominantly by government grant.

This income and expenditure is reported in the Consolidated Income and Expenditure Account in these statements and is supported by notes within the same section.

The Council does not consider that there were any other material items of income and/or expense that were incurred and/or received in the normal day to day provision of the services.

GRANT INCOME

Grants, third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

OPERATING LEASES

Council as Lessee

Leases that do not meet the definition of finance leases are accounted for as operating leases and the expenditure is charged to service revenue accounts on a straight-line basis over the term of the lease. The land and buildings elements of a lease require separate identification for both lease classifications and subsequent valuation. In most cases, the land element of a lease will be an operating lease.

The Council has no material operating lease agreements.

Council as Lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

The Council owns a number of property, plant and equipment assets that are leased to other bodies for one or a combination of the following purposes:

- To gain rental income from its investment properties
- For economic development purposes to provide suitable affordable accommodation for local businesses.
- To provide leisure facilities for public use

ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance
The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve
The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied
The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Assets are initially measured at cost, comprising the purchase price plus any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Charges to Revenue for Non-current Assets – Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service

The Council is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Component Accounting - Where components of an asset are significant in value in relation to the value of the asset as a whole, and they have substantially different economic lives, they will be recognised separately. Components will be recognised separately as and when they are replaced or re-valued.

Capital Expenditure and De minimis - Expenditure on the acquisition, creation or enhancement of tangible fixed assets is accounted for on an accruals basis. Capitalisation thresholds apply so that for land and buildings a de minimis of £10k applies, and for plant and equipment a deminimis of £5k applies, where it meets the criteria of having a life greater than a year and/or has increased the value/life of an asset or enhanced the usability of the asset.

REVALUATIONS

The Council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years and all assets within a class are revalued simultaneously. For the 2020/21 financial year, valuations were carried out as at 31 March 2021. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

All valuations were carried out externally by independent valuers Capita Property and Infrastructure Ltd. Valuations of land and buildings were carried out in accordance with methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

Assets are then carried on the Balance Sheet using the following measurement basis:

- Infrastructure, community assets and assets under construction - depreciated historical cost
- Surplus assets – fair value
- All other assets – current value

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Fair Value - The Council measures some of its non-financial assets, such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability

IMPAIRMENT

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against relevant service lines in the Comprehensive Income and Expenditure Statement.

- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

DEPRECIATION

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life and assets that are not yet available for use such as assets under construction.

Depreciation is calculated on a straight-line allocation over the useful life of the assets. Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is calculated on the following bases:

- Infrastructure - straight line allocation over the life of the asset
- Buildings – straight line allocation over the life of the property as estimated by the valuer
- Land – is not depreciated
- Assets under construction – not depreciated
- Vehicles, plant and equipment – straight line allocation over the life of the asset
- IT and Intangible Assets – straight line allocation over the life of the asset

The Useful Economic Life of assets in each category can vary depending on the type, make, construction and use of the asset. Current lives used for accounting purposes are:

• Infrastructure	3 to 25 years
• Buildings	10 to 53 years
• Land	99 years
• Vehicles, plant and equipment	1 to 5 years
• IT and Intangible Asset	3 years

INVESTMENT PROPERTIES

An investment property is defined as a property which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate. In this respect, the asset is not used directly to deliver the Council's services.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any proceeds greater than £10k) the Capital Receipts Reserve.

INTANGIBLE ASSETS

Intangible Assets are created when expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences), are capitalised and it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service area in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life assigned to the major software suites used by the Council is three years.

FINANCIAL INSTRUMENTS

Categories of Financial Instruments

Classification and Measurement of Financial Assets Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Expected Credit Loss Model Expected credit losses for all of financial assets held at amortised cost are recognised either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables, and contract assets and trade receivables with a significant financing component.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses.

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

For trade and contract receivables without a significant financing component the Council has applied a simplified approach consistently to calculate expected credit losses, under which impairment losses are automatically based on lifetime expected credit losses, removing the need to consider changes in credit risk since initial recognition

In accordance with the Code of Accounting Practice, no impairment loss allowance is recognised for monies owed by Central and Local Government bodies.

Fair Value of Financial Assets

Fair values are shown split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities
    - For the Council's investments in externally managed pooled funds, fund values published by the fund manager have been used as these represent the prices in the principal market within which the Council would normally enter into a transaction to sell the asset.
    - For the Stable or Low Volatility Net Asset Value money market funds, the valuation used assumes that, for each £1 for every of principal invested, the fund will return £1 of principal on withdrawal by the Council, plus interest.

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g., interest rates or yields for similar instruments.

- Level 3 – fair value is determined using unobservable inputs, e.g., non-market data such as cash flow forecasts or estimated creditworthiness

DEBTORS

Income is recognised in the accounts when it becomes due. Income that is due but has not been received at the end of the financial year is carried under the debtors heading in the balance sheet.

This debtor balance is reviewed at each year end to assess the recoverability of the sums due and where it is doubtful that debts will be settled the balance of debtors is written down and an impairment charge made to the relevant account for the income that might not be collected. This assessment is carried out using the Council's past experience and current knowledge of collection rates for different groups of debtors.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

BORROWINGS

For Borrowings the Balance Sheet carries the principal amount repayable (plus accrued interest). Interest is charged to the Comprehensive Income and Expenditure statement in accordance with the loan agreement.

PROVISIONS

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g., from an insurance claim) this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

USABLE RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, these do not represent usable resources for the Council – these are capital reserves.

Earmarked Reserves

Earmarked reserves are created for specific purposes (legal/contractual requirement) that span financial years for which there is a definitive time frame.

UNUSABLE RESERVES

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Available for Sale/Financial Instruments Revaluation Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised. Following the introduction of IFRS9 this reserve is has moved to Financial Instrument Revaluation Reserve.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements in accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

GRANT INCOME RECEIVED IN ADVANCE

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

FINANCE LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Embedded leases within contracts - There is a requirement for the Council to identify any instances where there are contracts in place to provide a service to the Council and consider whether there are any embedded leases within these contracts.

Council as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- A finance charge debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Council as Lessor

Finance leases – Where the Council grants a finance lease over property, plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal, matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor, and
- Finance income credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt.

CAPITAL EXPENDITURE AND CAPITAL FINANCING

Revenue Expenditure Funded by Capital Under Statute (REFCUS) - These amounts represent expenditure on capital grants and other payments which do not result in an asset belonging to the Council. Under the government's capital controls this expenditure would be treated as revenue expenditure. These amounts should be written off over a period consistent with the consumption of the economic benefits controlled by the Council.

As the Council does not control the economic benefit arising from this particular expenditure, 100% of the expenditure is written off to revenue in the year it is incurred, leaving no balance at the end of the year. The expenditure (net of grants received) is written off to the Capital Adjustment Account via the Movement in Reserves Statement.

DEFINED BENEFIT PENSION SCHEMES

The Council participates in one post-employment scheme:

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the HCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e., an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employees turnover rates etc. and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond (gross redemption yield on the iboxx Sterling Corporates Index, AA over 15 years).

- A significant proportion of the assets of the Scheme are invested in equities. The assets of the HCC pension fund attributable to the Council are included in the balance sheet at their fair value:
    - Quoted securities-current bid price
    - Unquoted securities-professional estimate
    - Unitised securities-current bid price
    - Property-market value
- The change in the net pension's liability is analysed into seven components:
    - Service cost comprising:
        - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
        - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
    - Net interest on the net defined benefit liability/asset i.e. net interest expense for the Council – the change during the period in the net defined benefit liability/asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period, taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.
    - Re-measurements comprising:
        - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
        - actuarial gains and losses - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
    - Contributions paid to the HCC pension fund - cash paid as the employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

IFRS 16 Leases; will require local authorities that are lessees to recognise most leases on their balance sheets as right-of–use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 to 1st April 2022 (Financial Year 2022/23).

- **IAS 40 Investment Property**: Transfers of Investment Property; provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration**; clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.
- **Amendments to IFRS 9 Financial Instruments**: Prepayment Features with Negative Compensation; amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than unpaid principal and interest. The Council has no loans to which this will apply.

It is anticipated that the above amendments will not have a material impact on the information provided in the statement of accounts.

RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

CONTINGENT ASSET AND LIABILITIES

Contingent assets and liabilities are not included within the Comprehensive Income and Expenditure Statement or Balance Sheet but are disclosed by way of a note to the accounts where a receipt or some other economic benefit is probable (contingent asset), or where there is a possible obligation that may require payment or other transfer of economic funds (contingent liability).

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Nature and Extent of Risk arising from Financial Instruments

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises form deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's and Standard & Poors Rating Services. The Annual Investment Strategy also imposes a maximum sum and time to be invested with a financial institution located within each category

The Council's Treasury Management Advisors, Link Asset Services, give a credit rating based on the latest market information.

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies.
- CDS spreads to give early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the Money Markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Market risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance. Movements in the fair value of fixed rate investments that have a quoted marketplace will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and it's expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long-term returns, similarly the drawing of longer-term fixed rates borrowing would be postponed. The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

AUDIT COMMITTEE

DATE OF MEETING: **23 MARCH 2021**

TITLE OF REPORT: **INTERNAL AUDIT PLAN 2021/22**

Report of: **Audit Manager**

Cabinet Member: **Councillor James Radley, Portfolio Holder for Finance**

1 PURPOSE OF REPORT

1.1 To inform members of the content of the 2021/22 Internal Audit Plan, attached as Appendix 1.

2 RECOMMENDATION

2.1 That the Committee approves the Internal Audit Plan for 2021/22.

3 BACKGROUND

Internal Audit Plan

3.1 The Internal Audit Plan provides a summary of the planned work for 2021/22. The Public Sector Internal Auditing Standards require the preparation of a risk based annual plan. Leadership Team have been consulted on the content of the plan, which is now reported to the Audit Committee for approval.

3.2 The Internal Audit Plan is based on a risk assessment which includes the following elements:

- Content of the Corporate Risk Register
- Content of Operational Risk Registers (service based)
- Budget
- Corporate Priorities
- Previous Audit Work
- Statutory Requirements

3.3 A significant part of the Internal Audit resource for 2020/21 is focused on the Council’s financial systems. This is the statutory element of Internal Audit’s work, arising from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2011.

3.4 It should be noted that the plan has been prepared based on an assumption that there will be a reduction in the level of internal audit resource required on Business Grant Work in 2021/22.

3.5 It should also be noted that there is always the possibility that planned work may change due to emerging risks and changing priorities. Any changes to the plan will be reported to the Audit Committee.

3.6 As in previous years internal audit work will be provided by a combination of an in-house resource and auditor days procured from Basingstoke and Deane Borough Council. The Council currently buys in 50 internal audit days and 25 specialist fraud days, this is part of an existing contract.

3.7 It is also hoped that for 2021/22 and onwards that we can also use a resource from Wokingham Borough Council. The council is hoping that it can procure at least 50 auditor days and will put in place a similar contractual arrangement with Wokingham.

4 MANAGEMENT OF RISK

4.1 A robust Internal Audit Plan is an essential element of the Council's systems of internal control. The plan is designed in accordance with the Council's identified risks and is also considered to be a key part of the Council's governance framework.

Contact Details: Neil Carpenter Extension: 4140, e-mail: neil.carpenter@hart.gov.uk

Appendix 1 – Internal Audit Plan 2021/22

Draft Internal Audit Plan 2021/22 **Appendix 1**

Service Reviews	**Days**
Complaints	10
Waste / Street Cleaning	10
Planning Performance	10
Disabled Facs Grants	10
Data management	
Financial resiliance	10
Commercialisation	
Corporate	
Ombudsman	5
Audit Management	15
NFI/Fraud	25
Follow Ups	10
Risk Management	15
External Audit	5
Annual Governance Statem	10
5 Councils	10
Corporate	30
Training	5
Audit Committee	15
Core Reviews	
Fraud Risk Assessment	10
Payroll	10
Local Taxation	15
Housing Benefit	15
Treasury Management	10
Accounts Payable	10
Accounts Receivable	10
Income Management	5
Main Accounting	10
IT Controls	15
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PAPER E

Hart District Council

Annual Audit Letter for the year ended 31 March 2020

February 2021

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Agenda Item 8

Building a better working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This 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 April 2018)' 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 Hywel Ball, 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.

Section 1

Executive Summary

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Executive Summary

We are required to issue an annual audit letter to Hart District Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver our audit in line with the revised reporting timescale.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment and Investment Properties	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer. We consider that the material uncertainties disclosed by the valuer impacted our identified risks, therefore, we engaged with our valuation specialists to review a sample of valuations and reviewed disclosures on the valuation of property, plant and equipment and investment properties.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: ► Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and ► Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

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Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► 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:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► 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.

Executive Summary (cont'd)

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 £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

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 20 October 2020
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 26 November 2020

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

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 2019/20 Audit Results Report to the 27 October 2020 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 of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 4 March 2020 and the updates as set out on page 4 to take into account the impact of the Covid-19 pandemic. It is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 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 £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). 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.

Section 3

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 other guidance issued by the National Audit Office and issued an unqualified audit report on 27 November 2020.

Our detailed findings were reported to the 26 November 2020 Audit Committee.

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

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 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.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We did not identify any inappropriate journal entries.
Risk of fraud in revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.	We documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed. Tested the appropriateness of journal entries recorded in the general ledger between revenue and capital codes. Amended our sample sizes when testing capital additions to reflect this risk. Agreed samples to source documentation to ensure the classification was reasonable. Our testing did not identify any material misstatements from capitalising revenue spend.

Financial Statement Audit (cont'd)

Other financial statement risk	Conclusion
Valuation of investment properties and property, plant and equipment (PPE) The fair value of Investment Properties and PPE represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. These judgements cover both assets that are revalued within the year and the continuing material accuracy of those valued in prior periods. The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty.	We: • considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme for PPE; • reviewed PPE assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; • considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • ‣ sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers; • Involved our valuation specialists to review a sample of assets; and • confirmed that accounting entries have been correctly processed in the financial statements. We identified one key issue from our work. The Council valued a recently purchased investment property at £6.283m. In our estimation an appropriate range for this asset was between £5.7m and £6m. Therefore, we reflected a judgemental misstatement of £0.283m, which management did not correct in the accounts.

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Financial Statement Audit (cont'd)

Other financial statement risk	Conclusion
Pension liability valuation 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 Hampshire County Council. The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 the net pension liability totalled £28.610m. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore 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.	We: • Liaised with the auditors of Hampshire Pension Fund to obtain assurances over the information supplied to the actuary. The pension fund auditor has raised that, based on the Pension Fund accounts and actual rate of return, the Council's share of the pension fund assets was estimated to be understated by £727k, and management adjusted for this difference. • Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. There were no issues regarding the actuary's assumptions.
Going concern The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake an updated detailed assessment to support its going concern assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the approval of the accounts, rather than the balance sheet date. So, for the 2019/20 statements, for example, we needed to see evidence of an assessment up to and including November 2021.	We reviewed the proposed going concern disclosures for inclusion in the financial statements and the Council's forecast cash flows. The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrated that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital. The Council updated its disclosures in the accounts to reference these factors and we were satisfied that the revised disclosure sufficiently disclosed the key elements of management's assessment and no material uncertainties exist.

Financial Statement Audit (cont'd)

Other key findings	Conclusion
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. We highlight the following misstatements greater than £0.046m identified during the course of our audit which management corrected: We have identified one audit difference in the draft financial statements which management has chosen to adjust. The pension fund auditor has raised that, based on the Pension Fund accounts and actual rate of return, the Council's share of the pension fund assets is estimated to be understated by £727k. Accruals overstated by an estimated £165k. We found two examples, totalling £2,748, in our sample of 18, where the invoice and services provided related to FY20/21. This error was estimated to be £165k when extrapolated across the total population Disclosures: ‣ Note 3.10.1 - Remuneration; There are two errors in this note where exit packages have been disclosed in the wrong bandings ‣ Note 5.12.6 - Collection Fund Adjustment Account: The carried forward figures initially showed a surplus instead of a deficit ‣ Restatements: A number of notes had restated comparative figures for 18/19, however these were, all but one, presentational issues which did not need defining as restatements. There were also some other minor disclosures which have been adjusted by management.
Audit differences	Management chose not to correct the following judgemental misstatement as it was not material to the financial statements: ‣ An investment property's value was judged to be overstated by £0.283m as it exceeded the top of the value range assessed by our specialist valuers of £5.7m to £6m.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £0.914m (2019: £0.867m), which is 2% of gross revenue expenditure reported in the draft accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.046m

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits.
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

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 in 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.

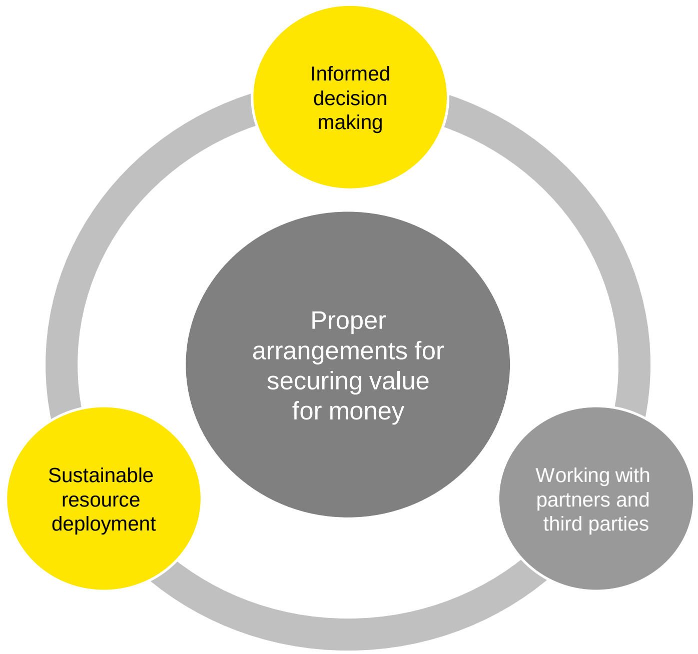
On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Government bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified two significant risks at the planning stage of the audit which were:

- the impact of exit from the 5 C's Contract; and
- commercialisation and the purchase of investment properties.

ur findings and conclusions are set out on the following pages.

Overall, we issued an unqualified value for money conclusion on 26 November 2020.



Value for Money (cont’d)

What was the risk?	What did we do?
In October 2017, Hart District Council (the Council) entered into two contracts for the provision of corporate services, in partnership with Mendip District Council, South Oxfordshire District Council, Vale of the White Horse District Council and Havant Borough Council (known as the “Five Councils”). The services were originally split into two lots; data-based services (Lot 1) and property based services (Lot 2). The 5 Councils are now exiting the contract for some services as at 31 March 2020. Given the short timescale for termination of the contract there is a risk that both the services and financial performance of the Council would be negatively impacted if new arrangements, from 1 April 2020, are difficult to implement or do not deliver the intended benefits in a sufficiently timely manner.	We: ‣ reviewed the arrangements in place to monitor the exit of the 5 C’s contract for the relevant services. ‣ reviewed the arrangements to plan and implement the revised delivery arrangements, including risk management processes.

Findings

In line with the governance arrangements in the IAA, service performance and contract change discussions continued to be reported to the, regular 6 weekly meetings of the 5 Council’s Strategic Management Board (SMB), Operational Management Board (OMB) and the Joint Tactical Board (JTB) during 2019/20. In the latter part of 2019/20, the 5 C’s Strategic Partnership Project Team began to facilitate the insourcing of services. Business cases for alternative solutions were discussed for each service provided by Capita and it was decided that the HR, Payroll and Accountancy services would be re-provisioned with effect from 1 April 2020. Exchequer and IT services still remain with Capita, but at the time of writing this report, these are currently being reviewed to decide on the best options going forward for 1 April 2021. On 1 April 2020, the HR, Payroll and Accountancy all transitioned from Capita with no disruption to service provision.

- The HR service is being adequately managed in-house. Some of the technology has been lost (ResourceLink) but a new solution will be developed in time.
- For payroll, now in-house, the pay runs for April and May were satisfactory, and whilst a number of discrepancies did occur these were identified and addressed without significant impact on employees.
- For accountancy, there was an agreed finance structure put in place as Mendip District Council TUPE’D the Capita staff back in-house and agreed a joint delivery of financial services with Hart under a new contract. Whilst experiencing some issues, the finance team have been focussed on the financial year-end, producing two sets of financial statements for both Mendip and Hart District Councils to the 31 August deadline, as well as supporting the business grant response to Covid-19.

The cost of exiting the Capita contract for HR, Payroll and Accountancy was a one-off payment for Hart of some £326k excluding VAT. Whilst this £326k is an additional expense for 2019/20, Hart had put monies aside in an earmarked reserve to cover these costs. Ongoing negotiations with Capita is a key strategic risk on the Council’s Corporate Risk Register for 2019/20 and 2020/21. Regular reporting on the actions to mitigate the risk around the transfer of services has been received by the Council’s Overview & Scrutiny Committee who monitor this Risk Register on a quarterly basis. Whilst the Council reports on refining relevant business cases, in line with negotiations, it also reported that there is no indication that Capita intend to cease delivering any services that the Councils are not prepared to nor will withdraw from. In terms of whether the arrangements to exit the contract were adequate, we conclude that there were clear arrangements to manager the transition to ensure the continuity of services for HR, Payroll and Accountancy services. Whilst negotiations now turns to the remaining services, with particular focus on Exchequer Services and IT, we suggest that management carry out individual services reviews of the HR, Payroll and Accountancy services to ensure that the new services delivered the intended benefits and continue to improve service performance.

Value for Money (cont'd)

What was the risk?

The Council has plans to develop its commercial and investment opportunities to increase its annual income. The Council's Commercialisation Acquisition Programme, as described in the 2020/21 Budget Paper presented to Cabinet on 6 February 2020, shows the following Commercialisation investment amounts to be funded by borrowing:

- 2020/21: £16.3 million
- 2021/22: £10 million; and
- 2022/23: £10 million.

The Prudential Code, issued by CIPFA has always contained a statement that local authorities should not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed (paragraph 46 of the Statutory Guidance on Local Government Investments). However, para 47 also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management.

The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order.

Additionally, the Statutory Guidance on Minimum Revenue Provision (MRP) applying from 1 April 2019 includes the requirement to establish an MRP policies, and paragraph 45 states that the duty to make MRP extends to investment properties where their acquisition has been funded by an increase in borrowing or credit arrangements. The Guidance's commentary sets out this is to ensure Council's provide for debt taken on to finance the asset over the period of that debt, with a maximum period of 50 years, consistent with the maximum period of PWLB borrowing. The Council's current policy states only that an annual review will be made to determine the most prudent method.

What did we do?

We reviewed:

- The underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives;
- Legal powers and other advice obtained e.g. tax, investment decisions;
- Compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code;
- The Council's MRP policy;
- Clarity of governance arrangements for the Council's decision making with regard to their investment property purchases;
- Recognition and reporting of risks in the corporate/strategic risk register

We also considered the extent to which the Council had demonstrated the key Prudential Code considerations:

- Existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality
- Demonstrating value for money in borrowing decisions
- Security of borrowed funds
- Extent of borrowing for investments and borrowing overall
- The nature of the investment
- Risks involved, including falling capital values, borrowing costs, illiquidity of assets.

Value for Money (cont'd)

Findings
The Council's Commercialisation Strategy, dated September 2018, is currently being refreshed for November 2020. The Strategy was last considered by the July 2020 Overview and Scrutiny Committee which was reviewing the outcome of the purchase of the Council's first investment property in February 2020. Internal cash funds were used to purchase a property for £6 million and no borrowing has taken place. Over time the Council may borrow some £50 million to invest in commercial assets to generate revenue of some £2 million a year by 2024/25 to help fund the delivery of Council services and help reduce any funding gaps. The Council's approach to MRP for its commercial investment activities is consistent with guidance, in that it sets aside 2% of the value of its investments each year to better reflect the return after borrowing costs. In terms of governance arrangements, the Council has set up a streamlined decision making process so that it can react quickly to market events. A panel consisting of one of the Chief Executives, the Leader, the Chair of the Overview and Scrutiny Committee and the Head of Corporate Resources & Section 151 Officer considers each individual business case for property acquisition which has been prepared by the Council's Commercial and Asset Manager, a qualified surveyor. External legal and property advice is used and the financial due diligence process is well documented. Whilst comprehensive procedures have been put in place, the Council should continue to improve risk management regarding individual commercial properties and diversify its portfolio in line with external guidance. It appears that risks associated with property investments have yet to be considered on the Council's Corporate Risk Register. We suggest that the Council's risk management process should be improved with risks identified and the actions to mitigate risks documented for individual commercial investments on a Commercial Property Risk Register, which should be actively maintained and reviewed on a quarterly basis by the Overview and Scrutiny Committee. The Council should also consider formalising a process for analysing decisions to retain or sell properties, to manage the risk of any loss in market value of the investment. It should establish key criteria against which to make this decision, and monitor these on a consistent basis. This could also be linked into the annual capital strategy. While no borrowing has currently taken place, the Council needs to remain aware of any further guidance regarding rules on borrowing for investment purposes, and ensure it takes ongoing legal advice to support its powers to do so.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500m. Therefore, we were not required to perform any detailed audit procedures on the consolidation pack.

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 2019/20 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 27 October 2020. 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.

Other Reporting Issues (cont'd)

Control Themes and Observations

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

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

Appendix A

Audit Fees

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Audit Fees

Our final fee for 2019/20 has been impacted by a range of factors which has resulted in additional work as reported in our Audit Results Report.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	41,469	37,799	41,469	63,045
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 26)	24,500			N/A
Revised proposed scale fee	**65,969**			
Additional work required for going concern and Covid-19 considerations (Note 1)	2,443			
Additional work required for Investment Property/PPE valuation (Note 2)	3,392			
VFM risks (Note 3)	5,101			
Prior year restatements (Note 4)	765			
Pension IAS19 procedures (note 5)	892			
Other overruns and remote working impacts (Note 6)	6,416			
Total Audit Fee	**84,978**			
Non-audit work – Claims and returns	TBC**	11,738	n/a	11,738

Audit Fees (cont'd)

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees (PSAA fee consulation), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond (Redmond Review) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 7 July 2020 (delayed from March 2020 due to the impact of the coronavirus pandemic, and the Council's change of s151 officer)

We reached agreement on the proposed scale fee variation. Management recognised many of these pressures and can see how they are reflected in the changes in the audit work.

We will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us.

Audit Fees (cont'd)

Note 1: Going Concern
To review management's assessment and additional disclosures that were required in relation to going concern and our internal consultation process undertaken to ensure that events and conditions in relation to the going concern assumption are adequately disclosed.

Note 2: Property valuations
To engage EY Real Estate, our internal property specialists, to review a sample of valuations of investment properties and EUV assets to ensure the impact of Covid-19 is taken into account in the valuations.

Note 3 VFM risks
This is the additional cost for the 2 value for Money risks set out in section 4, and an update of the initial risk assessment to ensure no significant Covid-19 impact.

Note 4: Prior year restatement.
The Council included prior year restatements within its draft accounts. This is the cost of reviewing those amended prior year figures.

Note 5: Pension IAS19 procedures
This is the cost of procedures undertaken at the Hampshire Pension Fund to provide assurance on the data sent from the Pension Fund to the Council's actuary.

Note 6:Other
This includes the time and cost incurred for delays experienced during the audit, caused by issues such as poor quality evidence provided and inconsistencies of the accounts to the underlying working papers. It also includes the additional time taken due to the pandemics impact and need to conduct the audit remotely.

This additional fee is currently under discussion with the Head of Corporate Services and is subject to approval by the PSAA.

**Our fees for the work on the Housing Benefit Subsidy claim will be finalised after the completion of the work, due by 31 March 2021 as the Council has agreed an extension with the DWP.

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ED None

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